



Section IV

**FY 2001 Annual
Financial
Statements**

CONTENTS

Chief Financial Officer's Analysis	IV-3
Principal Financial Statements	IV-5
OIG's Report on EPA's Financial Statements	IV-61

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CHIEF FINANCIAL OFFICER'S ANALYSIS OF EPA'S FISCAL YEAR 2001 AND 2000 FINANCIAL STATEMENTS

Summary of Auditor's Report and Opinions

The Agency prepared the following FY 2001 Financial Statements: Statement of Financial Position (Balance Sheet), Statement of Changes in Net Position, Statement of Net Cost, Statement of Budgetary Resources, Statement of Financing, and Statement of Custodial Activity. In addition, we prepared a Statement of Net Cost by Goal for each of the Agency's ten Strategic Goals.

The Office of Inspector General (OIG) stated "In our opinion, the consolidating financial statements present fairly the consolidated and individual assets, liabilities, net position, net cost, net cost by goal, changes in net position, reconciliation of net cost to budgetary obligations, and custodial activity of the U.S. Environmental Protection Agency and its subsidiary funds, the Superfund Trust Fund and All Other Appropriated Funds, as of and for the years ended September 30, 2001, and 2000, and budgetary resources as of and for the year ended September 30, 2001, in accordance with generally accepted accounting principles."

Report on Internal Controls

Although the OIG's Audit Report on EPA's Fiscal 2001 and 2000 Financial Statements cited three reportable conditions, the Report did not identify any material weaknesses.¹ These reportable conditions are summarized below, along with a short statement of the Agency's position with respect to each of those items.

- **EPA Did Not Implement Accounting for Internal Use Software Standard Timely** – OIG noted that the Agency did not issue formal policy and guidance until two days prior to the end of the fiscal year. This delay meant that the standard was not being followed during the course of the fiscal year. Consequently, the amount of capitalized software recognized on the financial statements was determined using estimates. OIG felt that some of supporting documentation was insufficient and thus that the software balance of \$11 million might be understated. However, the OIG did not recommend any corrective actions since the implementing policy was issued.

OCFO acknowledges that the Agency did not issue final internal policies and procedures implementing the new software accounting standard until the end of the fiscal year. In order to ensure that the FY 2001 financial statements incorporated the new standard, OCFO drew on existing OMB information technology reporting requirements as the basis for a comprehensive review of all major Agency systems. This review determined whether each system included software subject to the new standard or was exempt based on dollar thresholds or other standard-prescribed criteria. As a result, OCFO determined the correct amount to be recognized.

- **Additional Improvements Needed in EPA's Interagency Agreement Invoice Approval Process** – The Audit Report recognizes that the Agency has taken a number of corrective actions to strengthen the EPA Interagency Agreement (IAG) invoice approval process since the OIG first made recommendations on this topic in the fiscal 1994 Audit Report. The current Audit Report makes no new recommendations. The Agency's only open corrective action is to implement an automated project officer notification system to replace our current manual system and that action should be completed by April 30, 2002.
- **Automated Application Processing Controls** – In this Audit and in earlier Audit Reports the OIG stated that they have not found the documentation supporting the Agency's Integrated Financial Management System (IFMS) adequate to perform an assessment of IFMS's automated input, processing, and output

¹ A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement of amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

controls. Although the Agency has taken a number of actions to address the OIG's concerns, the Agency's current focus is on the project to replace IFMS and in providing thorough documentation of the new system. The Audit Report noted that the OIG believes EPA is moving in a credible fashion toward replacing IFMS. The OIG made no new recommendations.

Compliance with Laws and Regulations

Substantial Noncompliance with the Federal Financial Management Improvement Act (FFMIA)

The OIG identified only one area where they believed the OCFO was in substantial noncompliance with the FFMIA, and that concerned Statement of Federal Financial Accounting Standards No. 4, *"Managerial Cost Accounting Concepts and Standards for the Federal Government."* The OIG included this finding in the prior two Financial Statement Audit Reports. While OCFO agrees that improvements in cost accounting can be made, and has continued to take initiative as a federal leader in this area, OCFO also believes that the Agency substantially complies with this Standard. In accordance with the provisions of the FFMIA, the OIG has elevated this issue to the EPA Administrator.

Other Noncompliance Issues with FFMIA

The OIG cited, as a nonsubstantial noncompliance, EPA's difficulties in reconciling its intragovernmental assets and liabilities with its federal trading partners. The OIG states that without the proper confirmations from each of its trading partners, EPA cannot fully assure that its intragovernmental balances are accurate. However, the OIG recognized that this is a federal wide problem and that EPA has been proactive in addressing the challenges of reconciliation. We appreciate the OIG's acknowledgment of our efforts.

Progress in Correcting Previously Identified Problems

OCFO management completed a major effort to improve the preparation process for our financial statements this year, including automating the generation of the principal schedules. In order to meet the challenges associated with accelerated submission dates in future years, OCFO will continue to identify areas where this process can be further automated and streamlined for future financial statements.

We also have completed a number of major action items in our FY 1999 Remediation Plan and expect to have all the actions completed by mid-summer of 2002. OCFO, the Facilities Management and Services Division, and the Office of Acquisition Management have worked together and improved the accounting process for capitalized property. Also we have completed our process improvements for reviewing unliquidated obligations. As a result, there were no reportable conditions listed in this year's audit report regarding property accounting or unliquidated obligations.

CONTENTS

Financial Statements

Consolidating Balance Sheet
Consolidated Statement of Net Cost by Goal
Consolidating Statement of Net Cost
Consolidating Statement of Changes in Net Position
Combined Statement of Budgetary Resources
Consolidating Statement of Financing
Consolidated Statement of Custodial Activity

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies
Note 2. Fund Balances with Treasury
Note 3. Cash
Note 4. Investments
Note 5. Accounts Receivable
Note 6. Other Assets
Note 7. Loans Receivable, Net - Non-Federal
Note 8. Inventory and Property Received in Settlement
Note 9. General Plant, Property and Equipment
Note 10. Debt
Note 11. Custodial Liability
Note 12. Other Liabilities
Note 13. Leases
Note 14. Pensions and Other Actuarial Benefits
Note 15. Cashout Advances and Deferrals, Superfund
Note 16. Unexpended Appropriations
Note 17. Amounts Held by Treasury
Note 18. Commitments and Contingencies
Note 19. Grant Accrual
Note 20. Environmental Cleanup Costs
Note 21. Superfund State Credits
Note 22. Superfund Preauthorized Mixed Funding Agreements
Note 23. Income and Expenses from Other Appropriations
Note 24. Custodial Non-Exchange Revenues
Note 25. Statement of Budgetary Resources
Note 26. Adjustments
Note 27. Unobligated Balances
Note 28. Obligated Balance, Net - End of Period
Note 29. Statement of Financing
Note 30. Costs Not Assigned to Goals
Note 31. Transfers-in and out, Statement of Changes in Net Position
Note 32. Imputed Financing
Note 33. Payroll and Benefits Payable
Note 34. Restatement of Imputed Costs and Financing for Prior Years
Note 35. Change in Accounting for Trust Funds in FY 2000
Note 36. Change in Accounting for Cashout Interest, Superfund in FY 2000
Note 37. Change in Accounting for Expenditure Transfers

Supplemental Information Requested by OMB

Required Supplemental Information

Deferred Maintenance (Unaudited)
Intragovernmental Assets (Unaudited)
Intragovernmental Liabilities (Unaudited)
Supplemental Statement of Budgetary Resources (Unaudited)
Working Capital Fund Supplemental Balance Sheet (Unaudited)
Working Capital Fund Supplemental Statement of Net Cost (Unaudited)
Working Capital Fund Supplemental Statement of Changes in Net Position (Unaudited)
Working Capital Fund Supplemental Statement of Budgetary Resources (Unaudited)
Working Capital Fund Supplemental Statement of Financing (Unaudited)

Required Supplemental Stewardship Information

Annual Stewardship Information (Unaudited)

ENVIRONMENTAL PROTECTION AGENCY
CONSOLIDATING BALANCE SHEET
AS OF SEPTEMBER 30, 2001 AND 2000 (FY 2000 Restated-See Note 37*)
(Dollars in Thousands)

	Superfund Trust Fund FY 2001	Superfund Trust Fund FY 2000*	All Others FY 2001	All Others FY 2000*	Combined Totals FY 2001
ASSETS					
Intragovernmental:					
Fund Balance with Treasury (Note 2)	\$ 6,706	\$ 37,397	\$ 11,272,374	\$ 11,059,256	\$ 11,279,080
Investments (Note 4)	3,724,044	3,960,313	1,778,818	1,593,357	5,502,862
Accounts Receivable, Net (Notes 5 and 37)	31,178	40,671	69,977	80,824	101,155
Other (Note 6)	5,521	21,789	4,386	7,452	9,907
Total Intragovernmental	\$ 3,767,449	4,060,170	13,125,555	12,740,889	16,893,004
Accounts Receivable, Net (Note 5)	466,038	617,039	75,027	87,895	541,065
Loans Receivables, Net - Non Federal (Note 7)	0	0	75,552	89,128	75,552
Cash (Note 3)	0	0	0	48	0
Inventory & Property Received in Settlement (Note 8)	0	5,086	253	347	253
Property, Plant and Equipment, Net (Note 9)	16,515	13,581	526,893	473,028	543,408
Other (Note 6)	8,878	750	875	1,712	9,753
Total Assets	\$ 4,258,880	\$ 4,696,626	\$ 13,804,155	\$ 13,393,047	\$ 18,063,035
LIABILITIES					
Intragovernmental:					
Accounts Payable (Note 37)	\$ 65,809	\$ 121,920	\$ 1,118	\$ 1,506	\$ 66,927
Accrued Liabilities	57,728	51,748	40,541	50,580	98,269
Custodial Liability (Note 11)	0	0	77,778	102,469	77,778
Debt (Note 10)	0	0	31,124	37,922	31,124
Other (Note 12)	21,308	8,848	27,507	28,849	48,815
Total Intragovernmental	144,845	182,516	178,068	221,326	322,913
Accounts Payable	39,878	46,066	91,083	84,956	130,961
Accrued Liabilities	97,857	145,358	564,191	631,909	662,048
Cashout Advances & Deferrals, Superfund (Note 15)	394,699	372,586	0	0	394,699
Payroll and Benefits Payable (Note 33)	35,111	32,832	163,730	151,363	198,841
Pensions and Other Actuarial Liabilities (Note 14)	7,731	6,637	31,902	27,036	39,633
Environmental Cleanup Costs (Note 20)	0	0	14,528	15,499	14,528
Commitments and Contingencies (Note 18)	3,778	5,000	6,020	2,950	9,798
Other (Note 12 and Note 13)	27,659	30,192	60,536	49,147	88,195
Total Liabilities	751,558	821,187	1,110,058	1,184,186	1,861,616
NET POSITION					
Unexpended Appropriations (Note 16)	0	0	10,358,961	10,119,838	10,358,961
Cumulative Results of Operations (Note 37)	3,507,322	3,875,439	2,335,136	2,089,023	5,842,458
Total Net Position (Note 37)	3,507,322	3,875,439	12,694,097	12,208,861	16,201,419
Total Liabilities and Net Position	\$ 4,258,880	\$ 4,696,626	\$ 13,804,155	\$ 13,393,047	\$ 18,063,035

* Intragovernmental Accounts Receivable and Payable and Cumulative Results of Operations restated for FY 2000 - see Note 37.

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL PROTECTION AGENCY
CONSOLIDATING BALANCE SHEET
AS OF SEPTEMBER 30, 2001 AND 2000 (FY 2000 Restated-See Note 37*)
(Dollars in Thousands)

	Combined Totals FY 2000*	Intra-agency Elimination FY 2001	Intra-agency Elimination FY 2000*	Consolidated Totals FY 2001	Consolidated Totals FY 2000
ASSETS					
Intragovernmental:					
Fund Balance with Treasury (Note 2)	\$ 11,096,653	\$ 0	\$ 0	\$ 11,279,080	\$ 11,096,653
Investments (Note 4)	5,553,670	0	0	5,502,862	5,553,670
Accounts Receivable, Net (Notes 5 and 37)	121,495	(48,128)	(50,644)	53,027	70,851
Other (Note 6)	29,241	(5,739)	(6,510)	4,168	22,731
Total Intragovernmental	16,801,059	(53,867)	(57,154)	\$ 16,839,137	16,743,905
Accounts Receivable, Net (Note 5)	704,934	0	0	541,065	704,934
Loans Receivables, Net - Non Federal (Note 7)	89,128	0	0	75,552	89,128
Cash (Note 3)	48	0	0	0	48
Inventory & Property Received in Settlement (Note 8)	5,433	0	0	253	5,433
General Property, Plant and Equipment, Net (Note 9)	486,609	0	0	543,408	486,609
Other (Note 6)	2,462	0	0	9,753	2,462
Total Assets	\$ 18,089,673	\$ (53,867)	0 (57,154)	\$ 18,009,168	\$ 18,032,519
LIABILITIES					
Intragovernmental:					
Accounts Payable (Note 37)	\$ 123,426	\$ (45,271)	\$ (46,453)	21,656	\$ 76,973
Accrued Liabilities	102,328	(3,241)	(4,191)	95,028	98,137
Custodial Liability (Note 11)	102,469	0	0	77,778	102,469
Debt (Note 10)	37,922	0	0	31,124	37,922
Other (Note 12)	37,697	(5,355)	(6,510)	43,460	31,187
Total Intragovernmental	403,842	(53,867)	(57,154)	\$ 269,046	346,688
Accounts Payable	131,022	0	0	130,961	131,022
Accrued Liabilities	777,267	0	0	662,048	777,267
Cashout Advances & Deferrals, Superfund (Note 15)	372,586	0	0	394,699	372,586
Payroll and Benefits Payable (Note 33)	184,195	0	0	198,841	184,195
Pensions and Other Actuarial Liabilities (Note 14)	33,673	0	0	39,633	33,673
Environmental Cleanup Costs (Note 20)	15,499	0	0	14,528	15,499
Commitments and Contingencies (Note 18)	7,950	0	0	9,798	7,950
Other (Note 12 and Note 13)	79,339	0	0	88,195	79,339
Total Liabilities	2,005,373	(53,867)	(57,154)	1,807,749	1,948,219
NET POSITION					
Unexpended Appropriations (Note 16)	10,119,838	0	0	10,358,961	10,119,838
Cumulative Results of Operations (Note 37)	5,964,462	0	0	5,842,458	5,964,462
Total Net Position (Note 37)	16,084,300	0	0	16,201,419	16,084,300
Total Liabilities and Net Position	\$ 18,089,673	\$ (53,867)	\$ (57,154)	\$ 18,009,168	\$ 18,032,519

* Intragovernmental Accounts Receivable and Payable and Cumulative Results of Operations restated for FY 2000 - see Note 37.

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL PROTECTION AGENCY
CONSOLIDATED STATEMENT OF NET COST BY GOAL
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(Dollars in Thousands)

	Clean Air	Clean and Safe Water	Safe Food	Prevent Pollution	Better Waste Management	Global Risks
COSTS:						
Federal	\$ 87,360	\$ 156,900	\$ 30,210	\$ 41,065	\$ 465,452	\$ 39,816
With the Public	458,256	3,482,906	77,687	236,933	1,442,650	186,919
Total Costs	545,616	3,639,806	107,897	277,998	1,908,102	226,735
Less:						
Earned Revenues	702	4,966	17,051	1,545	510,905	7,286
Total Revenue	702	4,966	17,051	1,545	510,905	7,286
Management Cost Allocation	65,958	77,128	33,657	42,067	103,802	23,282
NET COST OF OPERATIONS	\$ 610,872	\$ 3,711,968	\$ 124,503	\$ 318,520	\$ 1,500,999	\$ 242,731

ENVIRONMENTAL PROTECTION AGENCY
CONSOLIDATED STATEMENT OF NET COST BY GOAL
FOR THE YEAR ENDED SEPTEMBER 30, 2000 - Restated (See Note 34)
(Dollars in Thousands)

	Clean Air	Clean and Safe Water	Safe Food	Prevent Pollution	Better Waste Management	Global Risks
COSTS:						
Federal (Note 34)	\$ 62,400	\$ 134,808	\$ 18,372	\$ 29,823	\$ 387,651	\$ 30,549
With the Public	462,922	3,209,971	80,003	231,151	1,478,910	179,880
Total Costs	525,322	3,344,779	98,375	260,974	1,866,561	210,429
Less:						
Earned Revenues	219	5,794	21,247	4,180	336,253	6,939
Total Revenue	219	5,794	21,247	4,180	336,253	6,939
Management Cost Allocation (Note 34)	53,522	73,540	21,779	34,754	135,265	15,755
NET COST OF OPERATIONS (Note 34)	\$ 578,625	\$ 3,412,525	\$ 98,907	\$ 291,548	\$ 1,665,573	\$ 219,245

Detailed descriptions of the above Goals are provided in EPA's FY 2001 Annual Report, Section II - Performance Results.

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL PROTECTION AGENCY
CONSOLIDATED STATEMENT OF NET COST BY GOAL
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(Dollars in Thousands)

	Right to Know	Sound Science	Credible Deterrent	Effective Management	Not Assigned to Goals*	Consolidated Totals
COSTS:						
Federal	\$ 41,540	\$ 58,804	\$ 100,116	\$ 66,461	\$ 29,438	\$ 1,117,162
With the Public	126,154	290,056	299,021	424,036	(60,997)	6,963,641
Total Costs	167,694	348,860	399,137	490,497	(31,539)	8,080,803
Less:						
Earned Revenues	324	706	786	4,330	(1,898)	546,703
Total Revenue	324	706	786	4,330	(1,898)	546,703
Management Cost Allocation	30,017	47,331	62,925	(486,167)	0	0
NET COST OF OPERATIONS	\$ 197,387	\$ 395,485	\$ 461,276	\$ 0	\$ (29,641)	\$ 7,534,100

ENVIRONMENTAL PROTECTION AGENCY
CONSOLIDATED STATEMENT OF NET COST BY GOAL
FOR THE YEAR ENDED SEPTEMBER 30, 2000 - Restated (See Note 34)
(Dollars in Thousands)

	Right to Know	Sound Science	Credible Deterrent	Effective Management	Not Assigned to Goals*	Consolidated Totals
COSTS:						
Federal (Note 34)	\$ 22,120	\$ 42,324	\$ 52,421	\$ 125,211	\$ 120,149	\$ 1,025,828
With the Public	114,439	286,882	317,423	339,874	25,346	6,726,801
Total Costs	136,559	329,206	369,844	465,085	145,495	7,752,629
Less:						
Earned Revenues	338	1,490	495	1,694	3,335	381,984
Total Revenue	338	1,490	495	1,694	3,335	381,984
Management Cost Allocation (Note 34)	22,752	30,676	75,348	(463,391)	0	0
NET COST OF OPERATIONS (Note 34)	\$ 158,973	\$ 358,392	\$ 444,697	\$ 0	\$ 142,160	\$ 7,370,645

* See Note 30.

Detailed descriptions of the above Goals are provided in EPA's FY 2001 Annual Report, Section II - Performance Results.

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL PROTECTION AGENCY
CONSOLIDATING STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000 - FY 2000 Restated (See Note 34)
(Dollars in Thousands)

	Superfund Trust Fund FY 2001	Superfund Trust Fund FY 2000*	All Others FY 2001	All Others FY 2000*	Combined Totals FY 2001
COSTS:					
Intragovernmental (Note 34)	\$ 426,499	\$ 353,782	\$ 710,290	\$ 689,140	\$ 1,136,789
With the Public	1,179,013	1,259,464	5,784,628	5,467,337	6,963,641
Expenses from Other Appropriations (Note 23)	\$ 103,654	31,270	(103,654)	(31,270)	0
Total Costs	<u>\$ 1,709,166</u>	<u>1,644,516</u>	<u>6,391,264</u>	<u>6,125,207</u>	<u>8,100,430</u>
Less:					
Earned Revenues	\$ 488,397	307,200	77,933	91,878	566,330
Total Revenue	<u>\$ 488,397</u>	<u>307,200</u>	<u>77,933</u>	<u>91,878</u>	<u>566,330</u>
NET COST OF OPERATIONS (Note 34)	<u>\$ 1,220,769</u>	<u>\$ 1,337,316</u>	<u>\$ 6,313,331</u>	<u>\$ 6,033,329</u>	<u>\$ 7,534,100</u>

* Restated amounts - See Note 34.

ENVIRONMENTAL PROTECTION AGENCY
CONSOLIDATING STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000 - FY 2000 Restated (See Note 34)
(Dollars in Thousands)

	Combined Totals FY 2000*	Intra-agency Eliminations FY 2001	Intra-agency Eliminations FY 2000*	Consolidated Totals FY 2001	Consolidated Totals FY 2000*
COSTS:					
Intragovernmental (Note 34)	\$ 1,042,922	\$ (19,627)	\$ (17,094)	\$ 1,117,162	\$ 1,025,828
With the Public	6,726,801	0	0	6,963,641	6,726,801
Expenses from Other Appropriations (Note 23)	\$ 0	0	0	0	0
Total Costs	<u>\$ 7,769,723</u>	<u>\$ (19,627)</u>	<u>\$ (17,094)</u>	<u>\$ 8,080,803</u>	<u>\$ 7,752,629</u>
Less:					
Earned Revenues	\$ 399,078	(19,627)	(17,094)	546,703	381,984
Total Revenue	<u>\$ 399,078</u>	<u>(19,627)</u>	<u>(17,094)</u>	<u>546,703</u>	<u>381,984</u>
NET COST OF OPERATIONS (Note 34)	<u>\$ 7,370,645</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,534,100</u>	<u>\$ 7,370,645</u>

* Restated amounts - See Note 34.

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL PROTECTION AGENCY
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000 *(FY 2000 Restated*-See Notes 34 & 37)*
(Dollars in Thousands)

	Superfund Trust Fund FY 2001	Superfund Trust Fund FY 2000*	All Others FY 2001	All Others FY 2000*	Combined Totals FY 2001
Net Cost of Operations (Note 34)	\$ 1,220,769	\$ 1,337,316	\$ 6,313,331	\$ 6,033,329	\$ 7,534,100
Financing Sources (Other Than Exchange Revenues):					
Appropriations Used	0	0	6,867,762	6,632,631	6,867,762
Taxes & Non-Exchange Interest (Note 17)	226,861	240,808	276,346	260,272	503,207
Other Non-Exchange Revenue	2,775	1,192	11,878	12,958	14,653
Imputed Financing (Notes 32 and 34)	13,686	12,534	77,855	70,384	91,541
Trust Fund Appropriations (Note 17)	633,603	700,000	(633,603)	(700,000)	0
Transfers-In (Notes 31 and 37)	0	9,707	62,861	64,995	62,861
Transfers-Out (Notes 31 and 37)	(127,927)	(124,200)	0	(990)	(127,927)
Income from Other Appropriations (Note 23)	103,654	31,270	(103,654)	(31,270)	0
Net Results of Operations before Accounting Changes for Trust Funds, Cashout Interest, & Transfers	(368,117)	(466,005)	246,114	275,651	(122,003)
Cumulative Effect of Trust Fund Accounting Changes on Net Results of Operations (Note 35)	0	2,656,831	0	91,596	0
Cumulative Effect of Cashout Interest Accounting Changes on Net Results of Operations (Note 36)	0	85,382	0	0	0
Cumulative Effect of Expenditure Transfer Accounting Changes on Net Results of Operations (Note 37)	0	(45,188)	0	45,188	0
Net Change in Cumulative Results of Operations	(368,117)	2,231,020	246,114	412,435	(122,003)
Increases/(Decreases) in Unexpended Appropriations	0	(2,656,831)	239,122	42,874	239,122
Change in Net Position	(368,117)	(425,811)	485,236	455,309	117,119
Net Position - Beginning of Period (Note 37)	3,875,439	4,301,250	12,208,861	11,753,552	16,084,300
Net Position - End of Period (Note 37)	\$ 3,507,322	\$ 3,875,439	\$ 12,694,097	\$ 12,208,861	\$ 16,201,419

* FY 2000 Net Cost of Operations and Imputed Financing are restated - See Note 34.
Also FY 2000 Transfers-in, Transfers-out, and Ending Net Position are restated; with an additional Accounting Change for Expenditure Transfers. - See Note 37.

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL PROTECTION AGENCY
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000 *(FY 2000 Restated*-See Notes 34 & 37)*
(Dollars in Thousands)

	Combined Totals FY 2000*	Intra-agency Eliminations FY 2001	Intra-agency Eliminations FY 2000*	Consolidated Totals FY 2001	Consolidated Totals FY 2000*
Net Cost of Operations (Note 34)	\$ 7,370,645	\$ 0	\$ 0	\$ 7,534,100	\$ 7,370,645
Financing Sources (Other Than Exchange Revenues):					
Appropriations Used	6,632,631	0	0	6,867,762	6,632,631
Taxes & Non-Exchange Interest (Note 17)	501,080	0	0	503,207	501,080
Other Non-Exchange Revenue	14,150	0	0	14,653	14,150
Imputed Financing (Notes 32 and 34)	82,918	0	0	91,541	82,918
Trust Fund Appropriations (Note 17)	0	0	0	0	0
Transfers-In (Notes 31 and 37)	74,702	(47,894)	(49,990)	14,967	24,712
Transfers-Out (Notes 31 and 37)	(125,190)	47,894	49,990	(80,033)	(75,200)
Income from Other Appropriations (Note 23)	0	0	0	0	0
Net Results of Operations before Accounting Changes for Trust Funds, Cashout Interest, & Transfers	(190,354)	0	0	(122,003)	(190,354)
Cumulative Effect of Trust Fund Accounting Changes on Net Results of Operations (Note 35)	2,748,427	0	0	0	2,748,427
Cumulative Effect of Cashout Interest Accounting Changes on Net Results of Operations (Note 36)	85,382	0	0	0	85,382
Cumulative Effect of Expenditure Transfer Accounting Changes on Net Results of Operations (Note 37)	0	0	0	0	0
Net Change in Cumulative Results of Operations	2,643,455	0	0	(122,003)	2,643,455
Increases/(Decreases) in Unexpended Appropriations	(2,613,957)	0	0	239,122	(2,613,957)
Change in Net Position	29,498	0	0	117,119	29,498
Net Position - Beginning of Period (Note 37)	16,054,802	0	0	16,084,300	16,054,802
Net Position - End of Period (Note 37)	\$ 16,084,300	\$ 0	\$ 0	\$ 16,201,419	\$ 16,084,300

* FY 2000 Net Cost of Operations and Imputed Financing are restated - See Note 34.
Also FY 2000 Transfers-in, Transfers-out, and Ending Net Position are restated; with an additional Accounting Change for Expenditure Transfers. - See Note 37.

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL PROTECTION AGENCY
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(Dollars in Thousands)

	Superfund Trust Fund	All Others	Combined Totals
Budgetary Resources			
Budget Authority	\$ 1,288,437	\$ 7,245,878	\$ 8,534,31
Unobligated Balances, Beginning of Period	450,538	1,774,158	2,224,696
Net Transfers, Prior Period Balances	0	1,003	1,003
Spending Authority from Offsetting Collections	348,758	303,972	652,730
Adjustments (Note 26)	196,644	18,095	214,739
Total Budgetary Resources (Note 25)	<u>\$ 2,284,377</u>	<u>\$ 9,343,106</u>	<u>\$ 11,627,483</u>
Status of Budgetary Resources			
Obligations Incurred (Note 25)	\$ 1,570,056	\$ 7,431,802	\$ 9,001,858
Unobligated Balances Available - Apportioned (Note 27)	714,321	1,791,475	2,505,796
Unobligated Balances Not Available (Note 27)	0	119,829	119,829
Total, Status of Budgetary Resources (Note 25)	<u>\$ 2,284,377</u>	<u>\$ 9,343,106</u>	<u>\$ 11,627,483</u>
Outlays (Note 25)			
Obligations Incurred (Note 25)	\$ 1,570,056	\$ 7,431,802	\$ 9,001,858
Less: Spending Authority from Offsetting Collections and Adjustments	(545,402)	(380,786)	(926,188)
Subtotal	<u>\$ 1,024,654</u>	<u>\$ 7,051,016</u>	<u>\$ 8,075,670</u>
Obligated Balance, Net - Beginning of Period	2,283,790	9,289,444	11,573,234
Obligated Balance Transferred, Net	0	0	0
Less: Obligated Balance, Net - End of Period (Note 28)	<u>(2,108,696)</u>	<u>(9,324,855)</u>	<u>(11,433,551)</u>
Total Outlays (Note 25)	<u>\$ 1,199,748</u>	<u>\$ 7,015,605</u>	<u>\$ 8,215,353</u>

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL PROTECTION AGENCY
CONSOLIDATING STATEMENT OF FINANCING
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000 (FY 2000 Restated*-See Note 34)
(Dollars in Thousands)

	Superfund Trust Fund FY 2001	Superfund Trust Fund FY 2000*	All Others FY 2001	All Others FY 2000*
Obligations and Nonbudgetary Resources				
Obligations Incurred	\$ 1,570,056	\$ 1,701,337	\$ 7,431,802	\$ 7,158,665
Less: Spending Authority for Offsetting Collections and Adjustments				
Earned Reimbursements				
Collected	(311,271)	(108,997)	(227,827)	(230,981)
Receivable from Federal Sources	3,716	13,324	6,306	20,720
Change in Unfilled Customer Orders (Decreases)/Increases	(41,203)	(17,846)	(36,273)	(54,653)
Transfers from Trust Funds	0	(9,642)	(46,178)	(46,358)
Recoveries of Prior Year Obligations	(196,644)	(201,660)	(76,814)	(111,767)
Imputed Financing for Cost Subsidies (Notes 32 and 34)	13,686	12,534	77,855	70,384
Income from Other Appropriations (Note 23)	103,654	31,270	(103,654)	(31,270)
Transfers-in/(out) of Nonmonetary Assets	0	39	0	0
Exchange Revenue Not in the Entity's Budget	(182,013)	(215,449)	(2,072)	(3,088)
Total Obligations as Adjusted and Nonbudgetary Resources	959,981	1,204,910	7,023,145	6,771,652
Resources that Do Not Fund Net Cost of Operations				
Change in Amount of Goods, Services, and Benefits Ordered But Not Yet Provided - (Increases)/Decreases	192,384	143,536	(117,998)	(74,345)
Change in Unfilled Customer Orders, etc.	41,203	17,846	36,273	53,227
Costs Capitalized on the Balance Sheet - (Increases)/Decreases				
General Plant, Property and Equipment	(8,306)	(3,827)	(74,092)	(107,711)
Purchases of Inventory	0	0	52	(68)
Adjustments to Costs Capitalized on the Balance Sheet	(40)	0	(4)	153
Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0	7,722	5,014
Adjustment for Trust Fund Outlays that Do Not Affect Net Cost	(94,347)	(38,090)	(587,424)	(652,268)
Total Resources that Do Not Fund Net Costs of Operations	130,894	119,465	(735,471)	(775,998)
Components of Costs that Do Not Require or Generate Resources				
Depreciation and Amortization	4,031	3,654	19,333	20,651
Bad Debt Related to Uncollectible Non-Credit Reform Receivables	133,761	3,075	2,881	1,518
Revaluation of Assets and Liabilities	0	0	0	(165)
Loss (Gain) on Disposition of Assets	(9,426)	(813)	895	0
Other Expenses not Requiring Budgetary Resources	699	45	(5,686)	3,409
Total Costs That Do Not Require Resources	129,065	5,961	17,423	25,413
Financing Sources Yet to be Provided (Note 29)	829	6,980	8,234	12,262
Net Costs of Operations (Note 34)	\$ 1,220,769	\$ 1,337,316	\$ 6,313,331	\$ 6,033,329

* Imputed Financing and Net Cost of Operations restated for FY 2000 - See Note 34.

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL PROTECTION AGENCY
CONSOLIDATING STATEMENT OF FINANCING
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000 (FY 2000 Restated*-See Note 34)
(Dollars in Thousands)

	Consolidated Totals FY 2001**	Consolidated Totals FY 2000* **
Obligations and Nonbudgetary Resources		
Obligations Incurred	\$ 9,001,585	\$ 8,860,002
Less: Spending Authority for Offsetting Collections and Adjustments		
Earned Reimbursements		
Collected	(539,098)	(339,978)
Receivable from Federal Sources	10,022	34,044
Change in Unfilled Customer Orders (Decreases)/Increases	(77,476)	(72,499)
Transfers from Trust Funds	(46,178)	(56,000)
Recoveries of Prior Year Obligations	(273,458)	(313,427)
Imputed Financing for Cost Subsidies (Notes 32 and 34)	91,541	82,918
Income from Other Appropriations (Note 23)	0	0
Transfers-in/(out) of Nonmonetary Assets	0	39
Exchange Revenue Not in the Entity's Budget	(184,085)	(218,537)
Total Obligations as Adjusted and Nonbudgetary Resources	<u>7,983,126</u>	<u>7,976,562</u>
Resources that Do Not Fund Net Cost of Operations		
Change in Amount of Goods, Services, and Benefits Ordered But Not Not Yet Provided - (Increases)/Decreases	74,386	69,191
Change in Unfilled Customer Orders, etc.	77,476	71,073
Costs Capitalized on the Balance Sheet - (Increases)/Decreases		
General Plant, Property and Equipment	(82,398)	(111,538)
Purchases of Inventory	52	(68)
Adjustments to Costs Capitalized on the Balance Sheet	(44)	153
Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	7,722	5,014
Adjustment for Trust Fund Outlays that Do Not Affect Net Cost	(681,771)	(690,358)
Total Resources that Do Not Fund Net Costs of Operations	<u>(604,577)</u>	<u>(656,533)</u>
Components of Costs that Do Not Require or Generate Resources		
Depreciation and Amortization	23,364	24,305
Bad Debt Related to Uncollectible Non-Credit Reform Receivables	136,642	4,593
Revaluation of Assets and Liabilities	0	(165)
Loss (Gain) on Disposition of Assets	(8,531)	(813)
Other Expenses not Requiring Budgetary Resources	(4,987)	3,454
Total Costs That Do Not Require Resources	<u>146,488</u>	<u>31,374</u>
Financing Sources Yet to be Provided (Note 29)	<u>9,063</u>	<u>19,242</u>
Net Costs of Operations (Note 34)	<u>\$ 7,534,100</u>	<u>\$ 7,370,645</u>

* Imputed Financing and Net Cost of Operations restated for FY 2000 - See Note 34.

** This statement did not have any intraagency eliminations for FY 2001 or FY 2000.

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL PROTECTION AGENCY
CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000
(Dollars in Thousands)

	FY 2001	FY 2000
Revenue Activity:		
Sources of Collections:		
Fines and Penalties	114,830	76,850
Other	\$ 31,754	\$ 18,418
Total Cash Collections	146,584	95,268
Accrual Adjustment	(24,692)	(8,678)
Total Custodial Revenue (Note 24)	121,892	86,590
Disposition of Collections:		
Transferred to Others (General Fund)	147,045	97,730
Increases/(Decreases) in Amounts To Be Transferred	(25,153)	(11,140)
Total Disposition of Collections	121,892	86,590
Net Custodial Revenue Activity (Note 24)	\$ 0	\$ 0

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL PROTECTION AGENCY
NOTES TO FINANCIAL STATEMENTS
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These consolidating financial statements have been prepared to report the financial position and results of operations of the Environmental Protection Agency (Agency) for the Hazardous Substance Superfund (Superfund) Trust Fund and All Other Funds, as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The reports have been prepared from the books and records of the Agency in accordance with “Form and Content for Agency Financial Statements,” specified by the Office of Management and Budget (OMB) in Bulletin 01-09, and the Agency’s accounting policies which are summarized in this note. In addition, to the guidance in Bulletin 01-09, the Statement of Net Cost has been prepared by the EPA strategic goals. These statements are therefore different from the financial reports also prepared by the Agency pursuant to OMB directives that are used to monitor and control the Agency’s use of budgetary resources.

B. Reporting Entities

The Environmental Protection Agency was created in 1970 by executive reorganization from various components of other Federal agencies in order to better marshal and coordinate Federal pollution control efforts. The Agency is generally organized around the media and substances it regulates—air, water, land, hazardous waste, pesticides and toxic substances. For FY 2001, the reporting entities are grouped as Hazardous Substance Superfund and All Other Funds.

Hazardous Substance Superfund

In 1980, the Hazardous Substance Superfund, commonly referred to as the Superfund Trust Fund, was established by the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) to provide resources needed to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by Federal and state governments as well as industry. The Agency allocates funds from its appropriation to other Federal agencies to carry out the Act. Risks to public health and the environment at uncontrolled hazardous waste sites qualifying for the Agency’s National Priorities List (NPL) are reduced and addressed through a process involving site assessment and analysis, and the design and implementation of cleanup remedies. Throughout this process, cleanup activities may be supported by shorter term removal actions to reduce immediate risks. Removal actions may include removing contaminated material from the site, providing an alternative water supply to people living nearby, and installing security measures. NPL cleanups and removals are conducted and financed by the Agency, private parties, or other Federal agencies. The Superfund Trust Fund includes the Treasury collections and investment activity. The Superfund Trust Fund is accounted for under Treasury symbol number 8145.

All Other Funds

All Other Funds include other Trust Fund appropriations, General Fund appropriations, Revolving Funds, Special Funds, the Agency Budgetary Clearing accounts, Deposit Funds, General Fund Receipt accounts, the Environmental Services Special Fund Receipt Account, the Miscellaneous Contributed Funds Trust Fund, and General Fund appropriations transferred from other Federal agencies as authorized by the Economy Act of 1932. Trust Fund appropriations are the Leaking Underground Storage Tank (LUST) Trust Fund and the Oil Spill Response Trust Fund. General Fund appropriations are the State and Tribal Assistance Grants (STAG), Science and Technology (S&T), Environmental Programs and Management (EPM), Office of Inspector

General (IG), Buildings and Facilities (B&F), and Payment to the Hazardous Substance Superfund. General Fund appropriation activities that no longer receive current definite appropriations but have unexpended authority are the Asbestos Loan Program and Energy, Research and Development. Revolving Funds include the FIFRA Revolving Fund and Tolerance Revolving Fund which receive no direct appropriations; however, they do collect fees from public industry as a source of reimbursement for the services provided. In addition to FIFRA and Tolerance, a Working Capital Fund (WCF) was established and designated as a franchise fund to provide computer operations support and postage service for the Agency. A Special Fund was established to collect the Exxon Valdez settlement as a result of the *Exxon Valdez* oil spill. All Other Funds are as follows:

The LUST Trust Fund was authorized by the Superfund Amendments and Reauthorization Act of 1986 (SARA) as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and environment. Funds are used for grants to non-state entities including Indian tribes under section 8001 of the Resource Conservation and Recovery Act. The program is financed by a 0.1 cent a gallon tax on motor fuels which will expire in 2005, and is accounted for under Treasury symbol number 8153.

The Oil Spill Response Trust Fund was authorized by the Oil Pollution Act (OPA) of 1990. Monies were appropriated to the Oil Spill Response Trust Fund in 1993. The Agency is responsible for directing, monitoring and providing technical assistance for major inland oil spill response activities. This involves setting oil prevention and response standards, initiating enforcement actions for compliance with OPA and Spill Prevention Control and Countermeasure requirements, and directing response actions when appropriate. The Agency carries out research to improve response actions to oil spills including research on the use of remediation techniques such as dispersants and bioremediation. Funding of oil spill cleanup actions is provided through the Department of Transportation under the Oil Spill Liability Trust Fund and reimbursable funding from other Federal agencies. The Oil Spill Response Trust Fund is accounted for under Treasury symbol number 8221.

The State and Tribal Assistance Grants (STAG) appropriation provides funds for environmental programs and infrastructure assistance including capitalization grants for State revolving funds and performance partnership grants. Environmental programs and infrastructure supported are Clean and Safe Water; Capitalization grants for the Drinking Water State Revolving Funds; Clean Air; Direct grants for Water and Wastewater Infrastructure needs, Partnership grants to meet Health Standards, Protect Watersheds, Decrease Wetland Loss, and Address Agricultural and Urban Runoff and Storm Water; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces and Ecosystems; and Reduction of Global and Cross Border Environmental Risks. STAG is accounted for under Treasury symbol 0103.

The Science and Technology (S&T) appropriation finances salaries; travel; science; technology; research and development activities including laboratory and center supplies; certain operating expenses; grants; contracts; intergovernmental agreements; and purchases of scientific equipment. These activities provide the scientific basis for the Agency's regulatory actions. In FY 2001, Superfund research costs were appropriated in Superfund and transferred to S&T to allow for proper accounting of the costs. Scientific and technological activities for environmental issues include Clean Air; Clean and Safe Water; Americans Right to Know About Their Environment; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; and Safe Food. The Science and Technology appropriation is accounted for under Treasury symbol 0107.

The Environmental Programs and Management (EPM) appropriation includes funds for salaries, travel, contracts, grants, and cooperative agreements for pollution abatement, control, and compliance activities and administrative activities of the operating programs. Areas supported from this appropriation include Clean Air; Clean and Safe Water; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; Better Waste Management, Restoration of Contaminated Waste Sites, and Emergency Response; Reduction of Global and Cross Border Environmental Risks; Americans' Right to Know About Their Environment; Sound Science; Improved Understanding of Environmental Risk; and Greater Innovation to

Address Environmental Problems; Credible Deterrent to Pollution and Greater Compliance with the Law; and Effective Management. The Environmental Programs and Management appropriation is accounted for under Treasury symbol 0108.

The Office of Inspector General appropriation provides funds for audit and investigative functions to identify and recommend corrective actions on management and administrative deficiencies that create the conditions for existing or potential instances of fraud, waste and mismanagement. Additional funds for audit and investigative activities associated with the Superfund Trust Fund and the Leaking Underground Storage Tank Trust Funds are appropriated under those Trust Fund accounts and are transferred to the Office of Inspector General account. The audit function provides contract, internal and performance, and financial and grant audit services. The Office of Inspector General appropriation is accounted for under Treasury symbol 0112 and includes expenses incurred and reimbursed from the appropriated trust funds being accounted for under Treasury symbols 8145 and 8153.

The Buildings and Facilities appropriation provides for the construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities that are owned or used by the Environmental Protection Agency. The Buildings and Facilities appropriation is accounted for under Treasury symbol 0110.

The Payment to the Hazardous Substance Superfund appropriation authorizes appropriations from the General Fund of the Treasury to finance activities conducted through Hazardous Substance Superfund. Payment to the Hazardous Substance Superfund is accounted for under Treasury symbol 0250.

The Asbestos Loan Program was authorized by the Asbestos School Hazard Abatement Act of 1986 to finance control of asbestos building materials in schools. Funds have not been appropriated for this Program since FY 1993. For FY 1993 and FY 1992, the program was funded by a subsidy appropriated from the General Fund for the actual cost of financing the loans, and by borrowing from Treasury for the unsubsidized portion of the loan. The Program Fund disburses the subsidy to the Financing Fund for increases in subsidy. The Financing Fund receives the subsidy payment, borrows from Treasury and collects the asbestos loans. The Asbestos Loan Program is accounted for under Treasury symbol 0118 for the subsidy and administrative support, under Treasury symbol 4322 for loan disbursements, loans receivable and loan collections on post FY 1991 loans, and under Treasury symbol 2917 for pre FY 1992 loans receivable and loan collections.

The FIFRA Revolving Fund was authorized by the Federal Insecticide, Fungicide and Rodenticide Act of 1972 as amended and as amended by the Food Quality Protection Act of 1996. Fees are paid by industry to offset costs of accelerated reregistration, expedited processing of pesticides, and establishing tolerances for pesticide chemicals in or on food and animal feed. The FIFRA Revolving Fund is accounted for under Treasury symbol number 4310.

The Tolerance Revolving Fund was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for Federal services of pesticide chemicals in or on food and animal feed. Effective January 2, 1997, fees collected are now being collected and deposited in the Reregistration and Expedited Processing Revolving Fund (4310). The fees collected prior to this date are accounted for under Treasury symbol number 4311.

The Working Capital Fund (WCF) includes two activities: computer support services and postage. WCF derives revenue from these activities based upon a fee for services. WCF's customers currently consist solely of Agency program offices. Accordingly, revenues generated by WCF and expenses recorded by the program offices for use of such services, along with the related advances/liabilities, are eliminated on consolidation. The WCF is accounted for under Treasury symbol 4565.

The Exxon Valdez Settlement Fund has funds available to carry out authorized environmental restoration activities. Funding is derived from the collection of reimbursements under the Exxon Valdez settlement as a result of the oil spill. The Exxon Valdez Settlement fund is accounted for under Treasury symbol number 5297.

Allocations and appropriations transferred to the Agency from other Federal agencies include funds from the Appalachian Regional Commission and the Department of Commerce which provide economic assistance to state and local developmental activities, the Agency for International Development which provides assistance on

environmental matters at international levels, and from the General Services Administration which provides funds for rental of buildings, and operations, repairs, and maintenance of rental space. The transfer allocations are accounted for under Treasury symbols 0200, 1010, and 4542; and the appropriation transfers are accounted for under 0108.

Clearing Accounts include the Budgetary suspense account, Unavailable Check Cancellations and Overpayments, and Undistributed OPAC Payments and Collections. Clearing accounts are accounted for under Treasury symbols 3875, 3880, and 3885.

Deposit funds include Fees for Ocean Dumping; Nonconformance Penalties; Clean Air Allowance Auction and Sale; Advances without Orders; and Suspense and payroll deposits for Savings Bonds, and State and City Income Taxes Withheld. Deposit funds are accounted for under Treasury symbols 6050, 6264, 6265, 6266, 6275, and 6500.

General Fund Receipt Accounts include Hazardous Waste Permits; Miscellaneous Fines, Penalties and Forfeitures; General Fund Interest; Interest from Credit Reform Financing Accounts; Fees and Other Charges for Administrative and Professional Services; and Miscellaneous Recoveries and Refunds. General Fund Receipt accounts are accounted for under Treasury symbols 0895, 1099, 1435, 1499, 3200, and 3220.

The Environmental Services Receipt account was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund will be appropriated to the S&T appropriation and to the EPM appropriation to meet the expenses of the programs that generate the receipts. Environmental Services are unavailable receipts accounted for under Treasury symbol 5295.

The Miscellaneous Contributed Funds Trust Fund includes gifts for pollution control programs that are usually designated for a specific use by the donor and deposits from pesticide registrants to cover the costs of petition hearings when such hearings result in unfavorable decisions to the petitioner. Miscellaneous Contributed Funds Trust Fund is accounted for under Treasury symbol 8741.

The accompanying financial statements include the accounts of all funds described in this note. The expense allocation methodology is a financial statement estimate that presents EPA's programs at full cost. Superfund may charge some costs directly to the fund and charge the remainder of the costs to the All Other Funds in the Agency-wide appropriations. These amounts are presented as Expenses from Other Appropriations on the Statement of Net Cost and as Income from Other Appropriations on the Statement of Changes in Net Position and the Statement of Financing.

The Superfund Trust Fund is allocated to general support services costs (such as rent, communications, utilities, mail operations, etc.) that were initially charged to the Agency's S&T and EPM appropriations. During the year, these costs are allocated from the S&T and EPM appropriations to the Superfund Trust Fund based on a ratio of direct labor hours, using budgeted or actual full-time equivalent personnel charged to these appropriations, to the total of all direct labor hours. Agency general support services cost charges to the Superfund Trust Fund may not exceed the ceilings established in the Superfund Trust Fund appropriation. The related general support services costs charged to the Superfund Trust Funds were \$56.3 million for FY 2000 and \$53.5 million for FY 2001.

C. Budgets and Budgetary Accounting

Superfund

Congress adopts an annual appropriation amount to be available until expended for the Superfund Trust Fund. A transfer account for the Superfund Trust Fund has been established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the Superfund Trust Fund at Treasury to cover the amounts being disbursed.

All Other Funds

Congress adopts an annual appropriation amount for the LUST Trust Fund and for the Oil Spill Response Trust Fund to remain available until expended. A transfer account for the LUST Trust Fund has been

established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the LUST Trust Fund at Treasury to cover the amounts being disbursed. The Agency draws down all the appropriated monies from the Treasury's Oil Spill Liability trust fund to the Oil Spill Response Trust Fund when Congress adopts the appropriation amount. Congress adopts an annual appropriation for STAG, Buildings and Facilities, and for Payments to the Hazardous Substance Superfund to be available until expended; adopts annual appropriations for S&T, EPM and for the Office of the Inspector General to be available for two fiscal years. When the appropriations for the General Funds are enacted, Treasury issues a warrant to the respective appropriations. As the Agency disburses obligated amounts, the balance of funds available to the appropriation is reduced at Treasury.

The Asbestos Loan Program is a commercial activity financed by a combination from two sources: one for the long term costs of the loans and another for the remaining non-subsidized portion of the loans. Congress adapted a one year appropriation, available for obligation in the fiscal year for which it was appropriated, to cover the estimated long term cost of the Asbestos loans. The long term costs are defined as the net present value of the estimated cash flows associated with the loans. The portion of each loan disbursement that did not represent long term cost was financed under a permanent indefinite borrowing authority established with the Treasury. A permanent indefinite appropriation is available to finance the costs of subsidy re-estimates that occur after the year in which the loan was disbursed. In FY 2000, subsidy increases totaled \$3,580 thousand which became an indefinite appropriation in FY 2001. In FY 2001, subsidy increases equaled \$272 thousand for loans disbursed from FY 1992 authority. The increases in subsidy will be appropriated in FY 2002. Also in FY 2001, subsidy decreases totaled \$1,313 thousand for loans disbursed from FY 1993 authority; the decreases in subsidy will be deposited with Treasury in FY 2002.

Funding of the FIFRA and the Tolerance Revolving Funds is provided by fees collected from industry to offset costs incurred by the Agency in carrying out these programs. Each year the Agency submits an apportionment request to OMB based on the anticipated collections of industry fees.

Funding of the WCF is provided by fees collected from other Agency appropriations collected to offset costs incurred for providing the Agency administrative support for computer support and postage.

Funds transferred from other Federal agencies are funded by a non expenditure transfer of funds from the other Federal agencies. As the Agency dis-burses the obligated amounts, the balance of funding available to the appropriation is reduced at Treasury.

Clearing accounts, Deposit accounts, and Receipt accounts receive no budget. The amounts are recorded to the Clearing and Deposit accounts pending further disposition. Amounts recorded to the Receipt accounts capture amounts receivable to or collected for the General Fund of the U.S. Treasury.

D. Basis of Accounting

Superfund and All Other Funds

Transactions are recorded on an accrual accounting basis and on a budgetary basis (where budgets are issued). Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. All interfund balances and transactions have been eliminated.

E. Revenues and Other Financing Sources

Superfund

The Superfund program receives most of its funding through appropriations that may be used, within specific statutory limits, for operating and capital expenditures (primarily equipment). Additional financing for the Superfund program is obtained through: reimbursements from other Federal agencies under Inter-Agency Agreements (IAGs), state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds

from Potentially Responsible Parties (PRPs), under CERCLA Section 122(b)(3), placed in special accounts. Special accounts were previously limited to settlement amounts for future costs; however, beginning in FY 2000, cost recovery amounts received under CERCLA Section 122(b)(3) settlements could be placed in special accounts. Cost recovery settlements that are not placed in special accounts, continue to be deposited in the Superfund Trust Fund.

All Other Funds

The majority of All Other Funds appropriations receive funding needed to support programs through appropriations, which may be used, within statutory limits, for operating and capital expenditures. Under Credit Reform provisions, the Asbestos Loan Program received funding to support the subsidy cost of loans through appropriations which may be used with statutory limits. The Asbestos Direct Loan Financing fund, an off-budget fund, receives additional funding to support the outstanding loans through collections from the Program fund for the subsidized portion of the loan. The last year Congress provided appropriations to make new loans was 1993. The FIFRA and the Tolerance Revolving Funds receive funding, which is now deposited with the FIFRA Revolving Fund, through fees collected for services provided. The FIFRA Revolving Fund also receives interest on invested funds. The WCF receives revenue through fees collected for services provided to Agency program offices. Such revenue is eliminated with related Agency program expenses on Consolidation. The Exxon Valdez Settlement Fund received funding through reimbursements.

Appropriations are recognized as Other Financing Sources when earned, i.e., when goods and services have been rendered without regard to payment of cash. Other revenues are recognized when earned, i.e., when services have been rendered.

F. Funds with the Treasury

Superfund and All Other Funds

The Agency does not maintain cash in commercial bank accounts. Cash receipts and disbursements are handled by Treasury. The funds maintained with Treasury are Appropriated Funds, Revolving Funds and Trust Funds. These funds have balances available to pay current liabilities and finance authorized purchase commitments.

G. Investments in U.S. Government Securities

All Other Funds

Investments in U.S. Government securities are maintained by Treasury and are reported at amortized cost net of unamortized discounts. Discounts are amortized over the term of the investments and reported as interest income. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

H. Marketable Equity Securities

Superfund

During FY 1993 and FY 1996, the Agency received marketable equity securities, valued at a total of \$5.1 million from a company in settlement of Superfund cost recovery actions, which were sold during FY 2001. The Agency records marketable securities at cost as of the date of receipt. Marketable securities are held by Treasury, and reported at their cost value in the financial statements until sold.

I. Notes Receivable

Superfund

In FY 2001, the Agency received a note receivable valued at \$8.1 million, from a company in settlement of Superfund cost recovery actions. The Agency records notes receivable at their face value and any accrued interest as of the date of receipt.

J. Accounts Receivable and Interest Receivable

Superfund

The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) as amended by the Superfund Amendments and Reauthorization Act (SARA) provides for the recovery of costs from potentially responsible parties (PRPs). However, cost recovery expenditures are expensed when incurred since there is no assurance that these funds will be recovered.

It is the Agency's policy to record accounts receivable from PRPs for Superfund site response costs when a consent decree, judgment, administrative order, or settlement is entered. These agreements are generally negotiated after site response costs have been incurred. It is the Agency's position that until a consent decree or other form of settlement is obtained, the amount recoverable should not be recorded.

The Agency also records accounts receivable from states for a percentage of Superfund site remedial action costs incurred by the Agency within those states. As agreed to under Superfund State Contracts (SSCs), cost sharing arrangements under SSCs may vary according to whether a site was privately or publicly operated at the time of hazardous substance disposal and whether the Agency response action was removal or remedial. SSC agreements are usually for 10% or 50% of site remedial action costs. States may pay the full amount of their share in advance, or incrementally throughout the remedial action process. Allowances for uncollectible state cost share receivables have not been recorded, because the Agency has not had collection problems with these agreements.

All Other Funds

The majority of receivables for All Other Funds represent interest receivable for Asbestos and FIFRA and both accounts receivable and interest receivable to the General Fund of the Treasury.

K. Loans Receivable

All Other Funds

Loans are accounted for as receivables after funds have been disbursed. The amount of Asbestos Loan Program loans obligated but not disbursed is disclosed in Note 6. Loans receivable resulting from obligations on or before September 30, 1991 are reduced by the allowance for uncollectible loans. Loans receivable resulting from loans obligated on or after October 1, 1991 are reduced by an allowance equal to the present value of the subsidy costs associated with these loans. The subsidy cost is calculated based on the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries offset by fees collected and other estimated cash flows associated with these loans.

L. Appropriated Amounts Held by Treasury

Superfund and All Other Funds

For the Superfund and LUST Trust Funds, and for amounts appropriated to the Office of Inspector General from the Superfund and LUST Trust Funds, cash available to the Agency that is not needed immediately for current disbursements remains in the respective Trust Funds managed by Treasury. At the end of FY 2001, approximately \$2.8 billion remained in the Treasury managed Superfund Trust Fund and

approximately \$83.5 million remained in the LUST Trust Fund to meet the Agency's disbursement needs. During FY 2000, the funds' balances were \$2.7 billion and \$86.2 million, respectively.

M. Advances and Prepayments

Superfund and All Other Funds

Advances and prepayments represent funds advanced or prepaid to other entities both internal and external to the Agency for which a budgetary expenditure has not yet occurred.

N. Property, Plant, and Equipment

Superfund and All Other Funds

The Fixed Assets Subsystem (FAS), implemented in FY 1997, maintains EPA-held personal, real property, and capital software records in accordance with Statement of Federal Financial Accounting Standards Number Six, "Accounting for Property, Plant and Equipment," (SFFAS No. 6). The FAS automatically generates depreciation entries monthly based on acquisition dates. Purchases of EPA-held and contractor-held personal property are capitalized if it is valued at \$25 thousand or more and has an estimated useful life of at least two years. Prior to implementing FAS, depreciation was taken on a modified straight-line basis over a period of six years depreciating 10% the first and sixth year, and 20% in years two through five. This modified straight-line method is still used for contractor-held property. All EPA-held personal property purchased before the implementation of FAS was assumed to have an estimated useful life of five years. New acquisitions of EPA-held personal property are depreciated using the straight-line method over the specific assets with useful lives, ranging from two to 15 years.

In FY 1997, EPA implemented requirements to capitalize software if the purchase price was \$100,000 or more with an estimated useful life of two years or more for the Working Capital Fund, which is a revenue generating activity. In FY 2001, the Agency began capitalizing software for All Other Funds whose acquisition value is \$500,000 or more in accordance with the provisions of SFFAS No. 10, "Accounting for Internal Use Software." Software is depreciated using the straight-line method over the specific assets' useful lives ranging from two to 10 years.

Real property consists of land, buildings, and capital and leasehold improvements. Real property, other than land, is capitalized when the value is \$75 thousand or more. Land is capitalized regardless of cost. Buildings were valued at an estimated original cost basis, and land was valued at fair market value if purchased prior to FY 1997. Real property purchased during and after FY 1997 are valued at actual costs. Depreciation for real property is calculated using the straight-line method over the specific assets' useful lives, ranging from 10 to 102 years. Leasehold improvements are amortized over the lesser of their useful lives or the unexpired lease terms. Additions to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed as incurred.

O. Liabilities

Superfund and All Other Funds

Liabilities represent the amount of monies or other resources that are likely to be paid by the Agency as the result of a transaction or event that has already occurred. However, no liability can be paid by the Agency without an appropriation or other collection of revenue for services provided. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that the appropriations will be enacted. Liabilities of the Agency, arising from other than contracts, can be abrogated by the Government acting in its sovereign capacity.

P. Borrowing Payable to the Treasury

All Other Funds

Borrowing payable to Treasury results from loans from Treasury to fund the Asbestos direct loans described in part B and C of this note. Periodic principal payments are made to Treasury based on the collections of loans receivable.

Q. Interest Payable to Treasury

All Other Funds

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt to Treasury. At the end of FY 2001 and FY 2000, there was no outstanding interest payable to Treasury since payment was made through September 30.

R. Accrued Unfunded Annual Leave

Superfund and All Other Funds

Annual, sick and other leave is expensed as taken during the fiscal year. Sick leave earned but not taken is not accrued as a liability. Annual leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in the Statement of Financial Position as a component of "Other Liabilities-Governmental." As of September 30, 2001, the unfunded leave liability for the Superfund Trust Fund was \$20.4 million, and for All Other Funds, it was \$98.2 million. During FY 2000, these liabilities were \$19.6 million for the Superfund Trust Fund and \$93.2 million for All Other Funds.

S. Retirement Plan

Superfund and All Other Funds

Agency employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). From October 1, 2000 to the pay period beginning prior to January 1, 2001, employees contributed 7.4% and 1.2% to CSRS and FERS, respectively. The employee contribution rates were rolled back as of January 1, 2001 to 7% and 0.8%, respectively. The Agency contributed 8.51% to CSRS employees' and 10.7% for FERS employees' retirement plans.

On January 1, 1987, the FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, were allowed to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to the Agency employees which automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired after December 31, 1983, the Agency also contributes the employer's matching share for Social Security.

With the issuance of "Accounting for Liabilities of the Federal Government" (SFFAS-5), which was effective for the FY 1997 financial statements, accounting and reporting standards were established for liabilities relating to the Federal employee benefit programs (Retirement, Health Benefits and Life Insurance). SFFAS-5 requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS-5 requires that the Office of Personnel Management, as administrator of the Civil Service Retirement and Federal Employees Retirement Systems, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide EPA with the 'Cost Factors' to compute EPA's liability for each program.

Note 2. Fund Balances with Treasury

Fund Balances with Treasury as of September 30, 2001 and 2000, consist of the following (in thousands):

	FY 2001			FY 2000		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
Trust Funds:						
Superfund	\$ 6,706	\$ 0	\$ 6,706	\$ 37,397	\$ 0	\$ 37,397
LUST	18,158	0	18,158	1,300	0	1,300
Oil Spill	3,165	0	3,165	3,106	0	3,106
Revolving Funds:						
FIFRA	3,465	0	3,465	5,442	0	5,442
Tolerance	31	0	31	22	0	22
Working Capital Fund	51,267	0	51,267	52,509	0	52,509
Appropriated	11,088,824	0	11,088,824	10,913,471	0	10,913,471
Other Fund Types	88,218	19,246	107,464	76,338	7,068	83,406
Total	<u>\$ 11,259,834</u>	<u>\$ 19,246</u>	<u>\$ 11,279,080</u>	<u>11,089,585</u>	<u>\$ 7,068</u>	<u>\$ 11,096,653</u>

Entity fund balances include balances that are available to pay current liabilities and to finance authorized purchase commitments. Also, Entity Assets, Other Fund Types consist of the Environmental Services Receipt account. The Environmental Services Receipt account is a special fund receipt account. Upon Congress appropriating the funds, EPA will use the receipts in the Science and Technology appropriation and the Environmental Programs and Management appropriation.

The non-entity Other Fund Type consist of clearing accounts and deposit funds. These funds are awaiting documentation for the determination of proper accounting disposition.

Note 3. Cash

In All Others, as of September 30, 2000, Cash consisted of imprest funds totaling \$48 thousand. All imprest funds were closed out in fiscal year 2001.

Note 4. Investments

As of September 30, 2001 and 2000, investments consisted of the following:

		Cost	Unamortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
SUPERFUND						
Intragovernmental Securities						
Non-Marketable	FY 2001	\$ 3,630,186	\$ (33,967)	\$ 59,891	\$ 3,724,044	\$ 3,724,044
	FY 2000	\$ 4,126,450	\$ 166,180	\$ 43	\$ 3,960,313	\$ 3,960,313
ALL OTHERS						
Intragovernmental Securities						
Non-marketable	FY 2001	\$ 1,703,909	\$ (52,551)	\$ 22,358	\$ 1,778,818	\$ 1,778,818
	FY 2000	\$ 1,669,665	\$ 76,334	\$ 26	\$ 1,593,357	\$ 1,593,357

CERCLA, as amended by SARA, authorizes EPA to recover monies to clean up Superfund sites from responsible parties (RP). Some RPs file for bankruptcy under Title 11 of the U.S. Code. In bankruptcy settlements, EPA is an unsecured creditor and is entitled to receive a percentage of the assets remaining after secured creditors have been satisfied. Some RPs satisfy their debts by issuing securities of the reorganized company. The Agency does not intend to exercise ownership rights to these securities, and instead will convert these securities to cash as soon as practicable.

Note 5. Accounts Receivable

The Accounts Receivable for September 30, 2001 and 2000, consist of the following:

	Superfund	Superfund	All Other	All Others
Intragovernmental Assests:				
Accounts & Interest Receivable	\$ 31,178	\$ 69,977	\$ 40,671	\$ 80,824
Total	\$ 31,178	\$ 69,977	\$ 40,671	\$ 80,824
Non-Federal Assets:				
Unbilled Accounts Receivable	\$ 86,470	\$ 1,668	\$ 88,209	\$ 0
Accounts & Interest Receivable	949,566	133,787	883,938	155,581
Less: Allowance for Uncollectibles	(569,998)	(60,428)	(355,108)	(67,686)
Total	\$ 466,038	\$ 75,027	\$ 617,039	\$ 87,895

The Allowance for Doubtful Accounts is determined on a specific identification basis as a result of a case-by-case review of receivables, and a reserve on a percentage basis for those not specifically identified.

During FY 2001, an analysis of unbilled Federal accounts receivable revealed that approximately \$10 million of receivables could not be substantiated as valid reimbursements receivable from specific Federal agencies. The net receivables were reduced by that amount. Of the total reductions, \$2.8 million affected Superfund receivables, \$3.6 million affected expired All Other Funds, and \$3.6 million were charged against All Other Funds canceled as of September 30, 2001.

In addition, a non-Federal debtor owing \$239 million in Superfund receivables declared bankruptcy. That amount was therefore added to the allowance for uncollectibles for non-Federal receivables in FY 2001.

Note 6. Other Assets

Other Assets for September 30, 2001, consist of the following:

	Superfund Trust Fund	All Others	Combined Totals	Intra-agency Eliminations	Consolidated Totals
Intragovernmental Assets:					
Advances to Federal Agencies	\$ 166	\$ 4,265	\$ 4,431	\$ (384)	\$ 4,047
Advances to Working Capital Fund	5,355	0	5,355	(5,355)	0
Advances for Postage	0	121	121	0	121
Total Intragovernmental Assets	\$ 5,521	\$ 4,386	\$ 9,907	\$ (5,739)	\$ 4,168
Non-Federal Assets:					
Travel Advances	\$ 7	\$ (854)	\$ (847)	\$ 0	\$ (847)
Letter of Credit Advances	0	315	315	0	315
Grant Advances	0	1,322	1,322	0	1,322
Other Advances	769	92	861	0	861
Bank Card Payments	1	0	1	0	1
Deposit on Returnable Containers	0	0	0	0	0
Prepaid Rent	0	0	0	0	0
Bankruptcy Settlement*	8,101	0	8,101	0	8,101
Total Non-Federal Assets	\$ 8,878	\$ 875	\$ 9,753	\$ 0	\$ 9,753

*Bankruptcy Settlement: A promissory note in the amount of \$8.1 million was issued to the Superfund in a bankruptcy settlement by Joy Global, Inc. Interest rate is 10.75 per annum with future payment date of April 30, 2006.

Other Assets for September 30, 2000, consist of the following:

	Superfund Trust Fund	All Others	Combined Totals	Intra-agency Eliminations	Consolidated Totals
Intragovernmental Assets:					
Advances to Federal Agencies	\$ 15,279	\$ 7,409	\$ 22,688	\$ 0	\$ 22,688
Advances to Working Capital Fund	6,510	0	6,510	(6,510)	0
Advances for Postage	0	43	43	0	43
Total Intragovernmental Assets	\$ 21,789	\$ 7,452	\$ 29,241	\$ (6,510)	\$ 22,731
Non-Federal Assets:					
Travel Advances	\$ (18)	\$ (916)	\$ (934)	\$ 0	\$ (934)
Letter of Credit Advances	0	599	599	0	599
Grant Advances	0	1,945	1,945	0	1,945
Other Advances	767	75	842	0	842
Bank Card Payments	1	0	1	0	1
Deposit on Returnable Containers	0	(2)	(2)	0	(2)
Prepaid Rent	0	11	11	0	11
Total Non-Federal Assets	\$ 750	\$ 1,712	\$ 2,462	\$ 0	\$ 2,462

Note 7. Loans Receivable, Net—Non-Federal

Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 are net of an allowance for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations made after FY 1991 are governed by the Federal Credit Reform Act. The Act mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as an expense in the year the loan is made. The net present value of loans is the amount of the gross loan receivable less the present value of the subsidy.

An analysis of loans receivable and the nature and amounts of the subsidy and administrative expenses associated entirely with Asbestos Loan Program loans as of September 30, 2001 and 2000, is provided in the following sections.

	FY 2001			FY 2000		
	Loans Receivable, Gross	Allowance*	Value of Assests Related to Direct Loans	Loans Receivable, Gross	Allowance*	Value of Assests Related to Direct Loans
Direct Loans Obligated Prior to FY 1992	\$ 49,683	\$ 0	\$ 49,683	\$ 58,114	\$ 0	\$ 58,114
Direct Loans Obligated After FY 1991	42,779	(16,910)	25,869	46,909	(15,895)	31,014
Total	\$ 92,462	\$ (16,910)	\$ 75,552	\$ 105,023	\$ (15,895)	\$ 89,128

* Allowance for Pre-Credit Reform loans (Prior to FY 1992) is the Allowance for Estimated Uncollectible Loans and the Allowance for Post Credit Reform Loans (After FY 1991) is the Allowance for Subsidy Cost (present value).

Subsidy Expenses for Post Credit Reform Loans:

	Interest Differential	Expected Defaults	Fee Offsets	Total
Direct Loan Subsidy Expense - FY 2001	\$ 1,227	\$ 2,353	\$ 0	\$ 3,580
Direct Loan Subsidy Expense - FY 2000	\$ 2,640	\$ 0	\$ 0	\$ 2,640

Note 8. Inventory and Property Received in Settlement, Net

The Inventory and Related Property at September 30, 2001 and 2000, consisted of the following:

	FY 2001		FY 2000	
	Superfund	All Others	Superfund	All Others
Operating Materials and Supplies Held for Use in Normal Operations	\$ 0	\$ 253	\$ 0	\$ 306
Securities Received in Settlement	0	0	5,086	41
Total	\$ 0	\$ 253	\$ 5,086	\$ 347

The securities represented assets received during a bankruptcy proceeding, and were all sold in FY 2001.

Note 9. General Plant, Property and Equipment

Superfund property, plant and equipment, consists of personal property items held by contractors and the Agency. EPA also has property funded by various other Agency appropriations. The property funded by these appropriations are presented in the aggregate under "All Others" and consists of software; real, EPA-Held and Contractor-Held personal, and capitalized-leased property.

As of September 30, 2001, Plant, Property and Equipment consisted of the following:

	Superfund			All Others		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	\$ 23,832	\$ (15,031)	\$ 8,801	\$ 161,253	\$ (105,484)	\$ 55,769
Software	559	(5)	554	10,398	(148)	10,250
Contractor-Held Equipment	9,422	(2,262)	7,160	16,752	(7,647)	9,105
Land and Buildings	0	0	0	500,854	(76,951)	423,903
Capital Leases	0	0	0	40,992	(13,126)	27,866
Total	\$ 33,813	\$ (17,298)	\$ 16,515	\$ 730,249	\$ (203,356)	\$ 526,893

As of September 30, 2000, Plant, Property and Equipment consisted of the following:

	Superfund			All Others		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	\$ 24,733	\$ (16,313)	\$ 8,420	\$ 134,893	\$ (86,883)	\$ 48,010
Software	0	0	0	550	0	550
Contractor-Held Equipment	8,814	(3,653)	5,161	34,103	(27,551)	6,552
Land and Buildings	0	0	0	461,817	(73,430)	388,387
Capital Leases	0	0	0	40,992	(11,463)	29,529
Total	\$ 33,547	\$ (19,966)	\$ 13,581	\$ 672,355	\$ (199,327)	\$ 473,028

Note 10. Debt

The Debt consisted of the following as of September 30, 2001 and 2000:

	FY 2001			FY 2000		
	Beginning Balance	Net Borrowing	Ending Balance	Beginning Balance	Net Borrowing	Ending Balance
All Others						
Other Debt: Debt to Treasury	\$ 37,922	\$ (6,798)	\$ 31,124	\$ 37,922	\$ 0	\$ 37,922
Classification of Debt:						
Intragovernmental Debt			\$ 31,124			\$ 37,922
Total			\$ 31,124			\$ 37,922

Note 11. Custodial Liability

Custodial Liability represents the amount of net accounts receivable that, when collected, will be deposited to the General Fund of the Treasury. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable.

Note 12. Other Liabilities

The Other Liabilities, both intragovernmental and non-Federal, for September 30, 2001 are as follows:

Other Liabilities - Intragovernmental	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Superfund - Current			
Employer Contributions & Payroll Taxes	\$ 2,682	0	\$ 2,682
Other Advances	1,045	0	1,045
Advances, HRSTF Cashout	15,208	0	15,208
Deferred HRSTF Cashout	947	0	947
Resources Payable to Treasury	0	0	0
Superfund - Non-Current			
Unfunded FECA Liability	0	1,426	1,426
Total Superfund	<u>\$ 19,882</u>	<u>\$ 1,426</u>	<u>\$ 21,308</u>
All Other - Current			
Employer Contributions & Payroll Taxes	\$ 11,935	\$ 0	\$ 11,935
WCF Advances	5,355	0	5,355
Other Advances	2,646	0	2,646
Liability for Deposit Funds	(85)	0	(85)
Resources Payable to Treasury	2	0	2
Subsidy Payable to Treasury	1,313	0	1,313
All Other - Non-Current			
Unfunded FECA Liability	0	6,341	6,341
Total All Other	<u>\$ 21,166</u>	<u>\$ 6,341</u>	<u>\$ 27,507</u>

Other Liabilities - Non-Federal	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Superfund - Current			
Unearned Advances, Non- Federal	\$ 27,659	0	27,659
Total Superfund	<u>\$ 27,659</u>	<u>\$ 0</u>	<u>\$ 27,659</u>
All Other - Current			
Unearned Advances, Non- Federal	\$ 4,275	\$ 0	\$ 4,275
Deferred Credits	0	0	0
Liability for Deposit Funds, Non-Federal	19,331	0	19,331
All Other - Non-Current			
Capital Lease Liability	0	36,930	36,930
Total All Other	<u>\$ 23,606</u>	<u>\$ 36,930</u>	<u>\$ 60,536</u>

The Other Liabilities, both intragovernmental and non-Federal, for September 30, 2000, are as follows:

Other Liabilities - Intragovernmental	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Superfund - Current			
Employer Contributions & Payroll Taxes	\$ 2,900	\$ 0	\$ 2,900
Other Advances	1,681	0	1,681
Advances, HRSTF Cashout	2,414	0	2,414
Deferred HRSTF Cashout	437	0	437
Resources Payable to Treasury	61	0	61
Superfund - Non-Current			
Unfunded FECA Liability	0	1,355	1,355
Total Superfund	\$ 7,493	\$ 1,355	\$ 8,848
All Other - Current			
Employer Contributions & Payroll Taxes	\$ 12,690	\$ 0	\$ 12,690
WCF Advances	6,510	0	6,510
Other Advances	3,638	0	3,638
Liability for Deposit Funds	(20)	0	(20)
Resources Payable to Treasury	(33)	0	(33)
All Other - Non-Current			
Unfunded FECA Liability	0	6,064	6,064
Total All Other	\$ 22,785	\$ 6,064	\$ 28,849

Other Liabilities - Non-Federal	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Superfund - Current			
Unearned Advances, Non- Federal	\$ 30,192	\$ 0	\$ 30,192
Total Superfund	\$ 30,192	\$ 0	\$ 30,192
All Other - Current			
Unearned Advances, Non- Federal	\$ 4,729	\$ 0	\$ 4,729
Deferred Creditss			
Liability for Deposit Funds, Non-Federal	6,833		6,833
All Other - Non-Current			
Capital Lease Liability	0	37,585	37,585
Total All Other	\$ 11,562	\$ 37,585	\$ 49,147

* For FY 2000, the Other Liabilities - non-Federal category included amounts reported separately in FY 2001 as "Payroll and Benefits Payable." The portion of this note for FY 2000 is re-stated accordingly. See Note 33 for items included in the Other Liabilities, non-Federal category, in FY 2000 statements.

Note 13. Leases

The Capital Leases as of September 30, 2001 and 2000, consist of the following:

Capital Leases, All Other Funds:

Summary of Assets Under Capital Lease:	FY 2001	FY 2000
Real Property	\$ 40,913	\$ 40,913
Personal Property	79	79
Total	\$ 40,992	\$ 40,992
Accumulated Amortization	\$ 13,126	\$ 11,463

EPA has three capital leases for land and buildings housing scientific laboratories and/or computer facilities. All of these leases include a base rental charge and escalator clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics (U.S. Department of Labor). EPA has one capital lease for a xerox copier that expires in FY 2002. The real property leases terminate in fiscal years 2010, 2013, and 2025. The charges are expended out of the Environmental Programs and Management (EPM) appropriation. The total future minimum lease payments of the capital leases are listed below.

Future Payments Due:	All Others
Fiscal Year	
2002	\$ 6,303
2003	6,295
2004	6,295
2005	6,295
2006	6,295
After 5 Years	89,899
Total Future Minimum Lease Payments	121,382
Less: Imputed Interest	(84,461)
Difference in Lease Payments to be corrected FY 2002	9
Net Capital Lease Liability	\$ 36,930
Liabilities not Covered by Budgetary Resources (See Note 12)	\$ 36,930

Operating Leases:

The General Services Administration (GSA) provides leased real property (land and buildings) as office space for EPA employees. GSA charges a Standard Level Users Charge that approximates the commercial rental rates for similar properties.

EPA has five direct operating leases for land and buildings housing scientific laboratories and/or computer facilities during FY 2001. Most of these leases include a base rental charge and escalator clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to

escalators in the Consumer Price Indices published by the Bureau of Labor Statistics (U.S. Department of Labor). Two of these operating leases expire in FY 2002. Two others expire in fiscal years 2017 and 2020. Respectively, the fifth lease expired in FY 2001 and is extended on a monthly basis. The charges are expended out of the EPM appropriation. The total minimum future costs of operating leases are listed below.

Fiscal Year	Superfund	All Others	Total Land & Buildings
2002	\$ 0	\$ 2,102	\$ 2,102
2003	0	74	74
2004	0	74	74
2005	0	74	74
2006	0	74	74
Beyond 2006	0	920	920
Total Future Minimum Lease Payments	<u>\$ 0</u>	<u>\$ 3,318</u>	<u>\$ 3,318</u>

Note 14. Pension and Other Actuarial Liabilities

FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Annually, EPA is allocated the portion of the long term FECA actuarial liability attributable to the entity. The liability is calculated to estimate the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability amounts and the calculation methodologies are provided by the Department of Labor.

The FECA Actuarial Liability at September 30, 2001 and 2000, consisted of the following:

	FY 2001		FY 2000	
	Superfund	All Other	Superfund	All Other
FECA Actuarial Liability	<u>\$ 7,731</u>	<u>\$ 31,902</u>	<u>\$ 6,637</u>	<u>\$ 27,036</u>

The FY 2001 present value of these estimates was calculated using a discount rate of 5.5 percent in years 1 and 2, 5.55 percent in year 3 and 5.6 percent in year 4 and thereafter. The estimated future costs are recorded as an unfunded liability.

Note 15. Cashout Advances and Deferrals, Superfund

Cashouts are funds received by EPA, a state, or another Potentially Responsible Party under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest bearing accounts known as special accounts and are used in accordance with the terms of the settlement agreement. Funds placed in special accounts may be used without further appropriation by Congress.

Note 16. Unexpended Appropriations

As of September 30, 2001 and 2000, the Unexpended Appropriations consisted of the following for All Other Funds:

Unexpended Appropriations:	FY 2001	FY 2000
Unobligated		
Available	\$ 1,635,071	\$ 1,518,675
Unavailable	64,930	83,396
Undelivered Orders	8,658,960	8,517,767
Total	\$ 10,358,961	\$ 10,119,838

Note 17. Amounts Held by Treasury

Amounts Held by Treasury for Future Appropriations consists of amounts held in trusteeship by the U.S. Department of Treasury in the “Hazardous Substance Superfund Trust Fund” (Superfund) and the “Leaking Underground Storage Tank Trust Fund” (LUST).

Superfund (Audited)

Superfund is supported primarily by an environmental tax on corporations, cost recoveries of funds spent to clean up hazardous waste sites, and fines and penalties. Prior to December 31, 1995, the fund was also supported by other taxes on crude and petroleum and on the sale or use of certain chemicals. The authority to assess those taxes and the environmental tax on corporations also expired on December 31, 1995, and has not been renewed by Congress. It is not known if or when such taxes will be reassessed in the future.

The following reflects the Superfund Trust Fund maintained by the U.S. Department of Treasury as of September 30, 2001 and 2000. The amounts contained in these statements have been provided by the Treasury and are audited. Outlays represent amounts received by EPA’s Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

SUPERFUND FY 2001	EPA	Treasury	Combined
Undistributed Balances			
Available for Investment	\$ 0	\$ 768	\$ 768
Unavailable for Investment	<u>0</u>	<u>0</u>	<u>0</u>
Total Undisbursed Balance	0	768	768
Interest Receivable	0	59,891	59,891
Investments, Net of Discounts	<u>2,837,243</u>	<u>826,910</u>	<u>3,664,153</u>
Total Assets	<u>\$ 2,837,243</u>	<u>\$ 887,569</u>	<u>\$ 3,724,812</u>
Liabilities & Equity			
Debt	\$ 0	\$ 0	\$ 0
Equity	<u>2,837,243</u>	<u>887,569</u>	<u>3,724,812</u>
Total Liability and Equity	<u>\$ 2,837,243</u>	<u>\$ 887,569</u>	<u>\$ 3,724,812</u>
Receipts			
Petroleum-Imported	\$ 0	\$ 2,471	\$ 2,471
Petroleum-Domestic	0	(12)	(12)
Crude and Petroleum	0	0	0
Certain Chemicals	0	32	32
Imported Substances	0	5	5
Corporate Environmental	0	3,861	3,861
Cost Recoveries	0	202,132	202,132
Fines & Penalties	<u>0</u>	<u>2,112</u>	<u>2,112</u>
Total Revenue	0	210,601	210,601
Appropriations Received	0	633,603	633,603
Interest Income	<u>0</u>	<u>220,504</u>	<u>220,504</u>
Total Receipts	<u>0</u>	<u>1,064,708</u>	<u>1,064,708</u>
Outlays			
Transfers to EPA	1,227,360	(1,227,360)	0
Transfers to CDC	<u>0</u>	<u>(74,835)</u>	<u>(74,835)</u>
Total Outlays	<u>1,227,360</u>	<u>(1,302,195)</u>	<u>(74,835)</u>
Net Income	<u>\$ 1,227,360</u>	<u>\$ (237,487)</u>	<u>\$ 989,873</u>

SUPERFUND FY 2000	EPA	Treasury	Combined
Undistributed Balances			
Available for Investment	\$ 0	\$ 1,986	\$ 1,986
Unavailable for Investment	0	0	0
Total Undisbursed Balance	0	1,986	1,986
Interest Receivable	0	43	43
Investments, Net of Discounts	2,770,969	1,189,301	3,960,270
Total Assets	<u>\$ 2,770,969</u>	<u>\$ 1,191,330</u>	<u>\$ 3,962,299</u>
Liabilities & Equity			
Debt	\$ 0	\$ 0	\$ 0
Equity	2,770,969	1,191,330	3,962,299
Total Liability and Equity	<u>\$ 2,770,969</u>	<u>\$ 1,191,330</u>	<u>\$ 3,962,299</u>
Receipts			
Petroleum-Imported	\$ 0	\$ 176	\$ 176
Petroleum-Domestic	0	2	2
Crude and Petroleum	0	(561)	(561)
Certain Chemicals	0	2,166	2,166
Imported Substances	0	606	606
Corporate Environmental	0	2,679	2,679
Cost Recoveries	0	230,508	230,508
Fines & Penalties	0	725	725
Total Revenue	0	236,301	236,301
Appropriations Received	0	700,000	700,000
Interest Income	0	235,740	235,740
Total Receipts	0	1,172,041	1,172,041
Outlays			
Transfers to EPA	1,628,891	(1,628,891)	0
Total Outlays	1,628,891	(1,628,891)	0
Net Income	<u>\$ 1,628,891</u>	<u>\$ (456,850)</u>	<u>\$ 1,172,041</u>

LUST (Audited)

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2001 \$40 thousand of the fund's receipts were from cost recoveries. The following represents LUST Trust Fund as maintained by the U.S. Department of Treasury. The amounts contained in these statements have been provided by Treasury and are audited. Outlays represent appropriations received by EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

FISCAL YEAR 2001 LUST	EPA	Treasury	Combined
Undistributed Balances			
Available for Investment	\$ 0	\$ 12,211	\$ 12,211
Unavailable for Investment	<u>0</u>	<u>0</u>	<u>0</u>
Total Undisbursed Balance	0	12,211	12,211
Taxes Receivable	0	0	0
Interest Receivable	0	22,358	22,358
Investments, Net of Discounts	<u>83,460</u>	<u>1,673,000</u>	<u>1,756,460</u>
Total Assets	<u>\$ 83,460</u>	<u>\$ 1,707,569</u>	<u>\$ 1,791,029</u>
Liabilities & Equity			
Accrued Liabilities	\$ 0	\$ 0	\$ 0
Equity	<u>83,460</u>	<u>1,707,569</u>	<u>1,791,029</u>
Total Liability and Equity	<u>\$ 83,460</u>	<u>\$ 1,707,569</u>	<u>\$ 1,791,029</u>
Receipts			
Highway TF Tax	\$ 0	\$ 167,408	\$ 167,408
Airport TF Tax	0	16,114	16,114
Inland TF Tax	0	582	582
Refund Gasoline Tax	0	(834)	(834)
Refund Diesel Tax	0	(1,584)	(1,584)
Refund Aviation Tax	0	(19)	(19)
Refund Aviation Fuel Tax	0	(123)	(123)
Cost Recovery	0	40	40
Audit Adjustment	<u>0</u>	<u>0</u>	<u>0</u>
Gross Revenue	0	181,584	181,584
Less: Reimbursement to General Fund	0	0	0
Net Revenue	0	181,584	181,584
Interest Income	<u>0</u>	<u>94,802</u>	<u>94,802</u>
Net Receipts	<u>0</u>	<u>276,386</u>	<u>276,386</u>
Outlays			
Transfers to EPA	<u>74,617</u>	<u>(74,617)</u>	<u>0</u>
Total Outlays	<u>74,617</u>	<u>(74,617)</u>	<u>0</u>
Net Income	<u>\$ 74,617</u>	<u>\$ 201,769</u>	<u>\$ 276,386</u>

FISCAL YEAR 2000 LUST	EPA	Treasury	Combined
Undistributed Balances			
Available for Investment	\$ 0	\$ (725)	\$ (725)
Unavailable for Investment	<u>0</u>	<u>0</u>	<u>0</u>
Total Undisbursed Balance	0	(725)	(725)
Taxes Receivable	0	221	221
Interest Receivable	0	26	26
Investments, Net of Discounts	<u>86,283</u>	<u>1,506,348</u>	<u>1,592,631</u>
Total Assets	<u>\$ 86,283</u>	<u>\$ 1,505,870</u>	<u>\$ 1,592,153</u>
Liabilities & Equity			
Accrued Liabilities	\$ 0	\$ 2,892	\$ 2,892
Equity	<u>86,283</u>	<u>1,502,978</u>	<u>1,589,261</u>
Total Liability and Equity	<u>\$ 86,283</u>	<u>\$ 1,505,870</u>	<u>\$ 1,592,153</u>
Receipts			
Highway TF Tax	\$ 0	\$ 172,659	\$ 172,659
Airport TF Tax	0	16,380	16,380
Inland TF Tax	0	612	612
Audit Adjustment	0	(1,710)	(1,710)
Gross Revenue	0	187,941	187,941
Less: Reimbursement to General Fund	0	(6,625)	(6,625)
Net Revenue	0	181,316	181,316
Interest Income	<u>0</u>	<u>78,956</u>	<u>78,956</u>
Net Receipts	<u>0</u>	<u>260,272</u>	<u>260,272</u>
Outlays			
Transfers to EPA	<u>65,718</u>	<u>(65,718)</u>	<u>0</u>
Total Outlays	<u>65,718</u>	<u>(65,718)</u>	<u>0</u>
Net Income	<u>\$ 65,718</u>	<u>\$ 194,554</u>	<u>\$ 260,272</u>

Note 18. Commitments and Contingencies

EPA may be a party in various administrative proceedings, legal actions and claims brought by or against it. These include:

- Various personnel actions, suits, or claims brought against the Agency by employees and others.
- Various contract and assistance program claims brought against the Agency by vendors, grantees and others.
- The legal recovery of Superfund costs incurred for pollution cleanup of specific sites, to include the collection of fines and penalties from responsible parties.
- Claims against recipients for improperly spent assistance funds which may be settled by a reduction of future EPA funding to the grantee or the provision of additional grantee matching funds.

Superfund

Under CERCLA §106(a), EPA issues administrative orders that require parties to clean up contaminated sites. CERCLA §106(b) allows a party that has complied with such an order to petition EPA for reimbursement from the Fund of its reasonable costs of responding to the order, plus interest. To be eligible for reimbursement, the party must demonstrate either that it was not a liable party under CERCLA §107(a) for the response action ordered, or that the Agency's selection of the response action was arbitrary and capricious or otherwise not in accordance with law.

There are currently three CERCLA §106(b) administrative claims and one pending lawsuit. If the claimants are successful, the total losses on the administrative and judicial claims could amount to approximately \$25.8 million and \$3.8 million, respectively. The Environmental Appeals Board has not yet issued final decisions on the administrative claims; therefore, a definite estimate of the amount of the contingent loss cannot be made. The claimants' chance of success in all three of these outstanding claims overall is characterized as reasonably possible. The claimants' chance of success in the pending lawsuit is also reasonably possible.

All Other

There were no material litigation, asserted or unasserted claims or assessments involving all other appropriated funds of the Agency.

Judgement Fund

In cases that are paid by the U.S. Treasury Judgement Fund, the Agency must recognize the full cost of a claim regardless of who is actually paying the claim. Until these claims are settled or a court judgement is assessed and the Judgement Fund is determined to be the appropriate source for the payment, claims that are probable and estimable must be recognized as an expense and liability of the agency. For these cases, at the time of settlement or judgement, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, Accounting for Treasury Judgement Fund Transactions.

As of September 30, 2001, \$3.8 million of Superfund related claims and \$6.0 million of All Other funds' claims were accrued as contingent liabilities under these criteria. Other contingent liabilities exist under 27 cases of which anticipated amounts for attorney fees alone cannot be estimated or known at this time. These amounts are believed to be less than material.

In addition, EPA is party to certain pending litigation upon which EPA believes it has a reasonable legal position. \$25.6 million of Judgement Fund claims in addition to the above accrued amounts are pending.

In the opinion of EPA's management and General Counsel, the ultimate resolution of any legal actions still pending will not materially affect EPA's operations or financial position.

Note 19. Grant Accrual

The EPA has revised the methodology for calculating the accrued grant expense for the Fiscal Year 2001 financial statements using a model based on historical grant payments and a survey of major grantees on billing practices. Average days of accrual at year end for sample grantees were determined from survey results and were used with average daily billings as determined by historical payment data to project the year end accrual for the sample group. The accrual for the sample group was then projected to provide the year end accrual for all grants. For FY 2001, the accrual for Superfund is \$16.9 million and the All Other grant accrual is \$476.7 million. In FY 2000, the accrual for Superfund was \$43.0 million and the All Other accrual was \$507.6 million. In the Statement of Net Cost by Goal, the grant accrual amounts are included in “Not Assigned to Goals.”

Note 20. Environmental Cleanup Costs

The EPA has four sites that require clean up stemming from its activities. Costs amounting to \$98 thousand for three of these sites will be paid out of the Treasury Judgement Fund. (The \$98 thousand represents the lower end of three separate range estimates, of which the maximum of the ranges would total \$110 thousand.) EPA estimates cleanup on the one other site will cost approximately \$20 thousand. EPA also holds title to a site in Edison, New Jersey which was formerly an Army Depot. While EPA did not cause the contamination, the Agency could potentially be liable for a portion of the cleanup costs. However, it is expected that the Department of Defense and General Services Administration will bear all or most of the cost of remediation.

Accrued Cleanup Cost

The EPA has 14 sites that will require future clean up associated with permanent closure and one site with clean up presently underway. The estimated costs will be approximately \$14.5 million. Since the cleanup costs associated with permanent closure are not primarily recovered through user fees, EPA has elected to recognize the estimated total cleanup cost as a liability and record changes to the estimate in subsequent years.

The FY 2001 estimate for unfunded cleanup costs decreased by \$5.8 million from the FY 2000 estimate. This represents a change of approximately 41 percent due in large part to the funding of cleanup at several Research Triangle Park (RTP) facilities associated with the ongoing consolidation at RTP. Of the \$14.5 million in estimated cleanup costs, approximately \$9.5 million represents the estimated expense to close the current RTP facility. These costs will be incurred within the next two years. The remaining amount represents the future decontamination and decommissioning costs of EPA's other research facilities. There was a net increase of approximately \$4.8 million in funded cleanup costs from FY 2000 to FY 2001. EPA could also be potentially liable for cleanup costs, at a GSA-leased site; however, the amounts are not known.

Note 21. Superfund State Credits

Authorizing statutory language for Superfund and related Federal regulations require States to enter into Superfund State Contracts (SSCs) when EPA assumes the lead for a remedial action in their State. The SSC defines the State's role in the remedial action and obtains the State's assurance that they will share in the cost of the remedial action. Under Superfund's authorizing statutory language, States will provide EPA with a ten percent cost share for remedial action costs incurred at privately owned or operated sites, and at least fifty percent of all response activities (i.e., removal, remedial planning, remedial action, and enforcement) at publicly operated sites. In some cases, States may use EPA approved credits to reduce all or part of their cost share requirement that would otherwise be borne by the States. Credit is limited to State site-specific expenses EPA has determined to be reasonable, documented, direct out-of-pocket expenditures of non-Federal funds for remedial action. Once EPA has reviewed and approved a State's claim for credit, the State must first apply the credit at the site where it was earned. The State may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 2001, total remaining State credits have been estimated at \$10.7 million. The estimated ending credit balance on September 30, 2000 was \$12.6 million.

Note 22. Superfund Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, Potentially Responsible Parties (PRPs) agree to perform response actions at their sites with the understanding that EPA will reimburse the PRPs a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under Section 111(a)(2) of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of 1980. Under Section 122(b)(1) of CERCLA, as amended by the Superfund Amendments and Reauthorization Act (SARA) of 1986, a PRP may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2001, EPA had 15 outstanding preauthorized mixed funding agreements with obligations totaling \$41.1 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by EPA for payment. Further, EPA will not disburse any funds under these agreements until the PRP's application, claim, and claims adjustment processes have been reviewed and approved by EPA.

Note 23. Income and Expenses from other Appropriations

The Statement of Net Cost reports program costs that include the full costs of the program outputs and consist of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to program outputs.

During Fiscal Year 2001, EPA had one appropriation which funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. The Environmental Programs and Management (EPM) appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities.

All of the expenses from EPM were distributed among EPA's two Reporting Entities: Superfund and All Others. This distribution is calculated using a combination of specific identification of expenses to Reporting Entities, and a weighted average that distributes expenses proportionately to total programmatic expenses.

As illustrated below, this estimate does not impact the net effect of the Statement of Net Costs.

	FY 2001			FY 2000		
	Income From Other Appropriations	Expenses From Other Appropriations	Net Effect	Income From Other Appropriations	Expenses From Other Appropriations	Net Effect
Superfund	\$ 103,654	\$ (103,654)	\$ 0	\$ 31,270	\$ (31,270)	\$ 0
All Others	(103,654)	103,654	0	(31,270)	31,270	0
Total	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$0 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Note 24. Custodial Non-Exchange Revenues

EPA uses the accrual basis of accounting for the collection of fines, penalties and miscellaneous receipts. Collectibility by EPA of the fines and penalties is based on the responsible parties' willingness and ability to pay.

	FY 2001	FY 2000
Fines, Penalties and Other Misc Revenue (EPA)	\$ 121,892	\$ 86,590
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts		
Accounts Receivable	\$ 123,966	\$ 154,803
Less: Allowance for Doubtful Accounts	46,186	52,336
Total	\$ 77,780	\$ 102,467

Note 25. Statement of Budgetary Resources

Reconciliations of budgetary resources, obligations incurred, and outlays, as presented in the audited Statements of Budgetary Resources, to amounts included in the Budget of the United States Government for the years ended September 30, 2001 and 2000, are as follows:

FY 2001	Budgetary Resources	Obligations Incurred	Outlays
SUPERFUND			
Statement of Budgetary Resources	\$ 2,284,377	\$ 1,570,056	\$ 1,199,748
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	(3,650)	13,813	0
Budget of the United States Government	\$ 2,280,727	\$ 1,583,869	\$ 1,199,748
ALL OTHER			
Statement of Budgetary Resources	\$ 9,343,106	\$ 7,431,802	\$ 7,015,605
Less: Funds Reported by Other Federal Entities	(26,148)	(25,677)	(25,342)
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	(5,229)	(5,229)	0
Budget of the United States Government	\$ 9,311,729	\$ 7,400,896	\$ 6,990,263
FY 2000	Budgetary Resources	Obligations Incurred	Outlays
SUPERFUND			
Statement of Budgetary Resources	\$ 2,151,875	\$ 1,701,337	\$ 1,526,587
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	(328)	(1,744)	1,000
Budget of the United States Government	\$ 2,151,547	\$ 1,699,593	\$ 1,527,587
ALL OTHER			
Statement of Budgetary Resources	\$ 8,932,823	\$ 7,158,665	\$ 6,602,265
Less: Funds Reported by Other Federal Entities	(24,778)	(23,835)	(24,545)
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	66,618	67,907	57
Budget of the United States Government	\$ 8,974,663	\$ 7,202,737	\$ 6,577,777

Note 26. Adjustments

Adjustments for FY 2001 and FY 2000 are represented by the following categories:

	FY 2001	FY 2000
SUPERFUND		
Recoveries of Prior Year Obligations	\$ 196,644	\$ 201,660
Less: Cancelled Authority	0	2,288
Total	<u>\$ 196,644</u>	<u>\$ 199,372</u>
ALL OTHERS		
Recoveries of Prior Year Obligations	\$ 76,815	\$ 111,767
Adjustments to Beginning Unobligated Balances	0	615
Less: Payments to Treasury	(6,798)	0
Rescinded Authority	(15,668)	(28,848)
Canceled Authority	(36,254)	(55,687)
Total	<u>\$ 18,095</u>	<u>\$ 27,847</u>

Note 27. Unobligated Balances Available

Availability of unobligated balances are shown comparatively for FY 2001 and FY 2000. The unexpired authority is available to be apportioned by the Office of Management and Budget for new obligations at the beginning of FY 2001. Expired authority is available for upward adjustments of obligations incurred as of the end of the fiscal year.

	FY 2001	FY 2000
SUPERFUND		
Unexpired Unobligated Balance	\$ 714,321	\$ 449,538
Expired Unobligated Balance	0	1,000
Total	<u>\$ 714,321</u>	<u>\$ 450,538</u>
ALL OTHERS		
Unexpired Unobligated Balance	\$ 1,791,475	\$ 1,644,998
Expired Unobligated Balance	119,829	129,160
Total	<u>\$ 1,911,304</u>	<u>\$ 1,774,158</u>

Note 28. Obligated Balance, Net - End of Period

The following unpaid undelivered orders are included in the Obligated Balance, Net - End of Period for FY 2001 and FY 2000.

	FY 2001	FY 2000
SUPERFUND		
Undelivered Orders, Unpaid	<u>\$ 1,915,743</u>	<u>\$ 2,091,767</u>
ALL OTHERS		
Undelivered Orders, Unpaid	<u>\$ 8,787,505</u>	<u>\$ 8,657,913</u>

Note 29. Statement of Financing

Increases in Unfunded Liabilities relate to changes in unfunded annual leave, environmental liabilities, contingent liabilities and the Federal Employees Compensation Act (FECA) special benefit fund. For Superfund and All Others, the changes are reflected in Financing Sources Yet to Be Provided.

	FY 2001	FY 2000
FINANCING SOURCES YET TO BE PROVIDED		
Superfund	\$ 829	\$ 6,980
All Others	8,234	12,262
Total	<u>\$ 9,063</u>	<u>\$ 19,242</u>

Note 30. Costs Not Assigned to Goals

FY 2001's Statement of Net Cost by Goal has \$(31.5) million in gross costs not assigned to goals. Grant accruals are part of the "Costs Not Assigned to Goals." The FY 2001 amount is comprised of a decrease of \$57.0 million to the year-end grant accruals (see Note 19); partially offset by \$19.7 million in bad debt expense not assigned to goals, \$2.4 million in interest on Treasury borrowing, \$3.1 million in undistributed imputed costs, and \$0.3 million in miscellaneous expenses.

For FY 2000's Statement of Net Cost by Goal, \$145.5 million in gross costs were not assigned to goals. This amount was comprised of a \$106.4 million increase to the year-end grant accruals, \$15.2 million in unfunded expenses, \$19.9 million in depreciation expenses that were not assigned, \$3.0 million in bad debt expense, and \$1 million in miscellaneous expenses.

Note 31. Transfers-in and out, Statement of Changes in Net Position

The consolidated amounts shown as transfers-in on the Statement of Changes in Net Position are comprised of transfers from other Federal agencies in accordance with applicable legislation. The consolidated amounts shown as transfers-out are nonexpenditure transfers to other Hazardous Substance Superfund allocation agency funds, such as HHS and Labor. Elimination transactions consist of intra-agency transfers between EPA funds.

Note 32. Imputed Financing

In accordance with Statement of Federal Financial Accounting Standard No. 5 (Liabilities of the Federal Government), Federal agencies must recognize the portion of employees' pensions and other retirement benefits to be paid by the Office of Personnel Management (OPM) trust funds. These amounts are recorded as imputed costs and imputed financing for the agency. Each year the OPM provides federal agencies with cost factors to calculate these imputed costs and financing that apply to the current year. These cost factors are multiplied by the current year's salaries or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each agency. The estimates for FY 2001 were \$13.4 million and \$76.5 million for Superfund and All Other Funds, respectively. For FY 2000, the revised estimates (see Note 34) were \$12.5 million and \$70.4 million for Superfund and All Other Funds, respectively.

In addition to the pension and retirement benefits described above, in FY 2001 EPA also recorded imputed costs and financing for Treasury Judgement Fund payments on behalf of the agency. Entries are in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, Accounting for Treasury Judgement Fund Transactions. These entries totaled \$0.3 million and \$1.3 million for Superfund and All Other Funds, respectively.

Note 33. Payroll and Benefits Payable

The amounts that relate to payroll and benefits payable to EPA employees for the years ending September 30, 2001 and 2000 are detailed in the following tables. For FY 2000, these amounts were included with Other Liabilities, non-Federal. The FY 2000 portion of this note has been drawn from the prior year's note on Other Liabilities.

FY 2001 Payroll and Benefits Payables	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Superfund - Current			
Accrued Funded Payroll and Benefits	\$ 8,361	\$ 0	\$ 8,361
Withholdings Payable	5,935	0	5,935
Employer Contributions Payable, non Federal (TSP)	372	0	372
Other Post-employment Benefits Payable	3	0	3
Accrued Unfunded Annual Leave	0	20,440	20,440
Total - Superfund - Current	\$ 14,671	\$ 20,440	\$ 35,111
All Other Funds - Current			
Accrued Funded Payroll and Benefits	\$ 37,099	\$ 0	\$ 37,099
Withholdings Payable	26,410	0	26,410
Employer Contributions Payable, non Federal (TSP)	1,645	0	1,645
Other Post-employment Benefits Payable	33	0	33
Accrued Funded Leave, WCF	320	0	320
Accrued Unfunded Annual Leave	0	98,223	98,223
Total - All Other Funds - Current	\$ 65,507	\$ 98,223	\$ 163,730

FY 2000 Payroll and Benefits Payables	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Superfund - Current			
Accrued Funded Payroll and Benefits	\$ 7,499	\$ 0	\$ 7,499
Withholdings Payable	5,777	0	5,777
Other Post-employment Benefits Payable	3	0	3
Accrued Unfunded Annual Leave	0	19,553	19,553
Total - Superfund - Current	\$ 13,279	\$ 19,553	\$ 32,832
All Other Funds - Current			
Accrued Funded Payroll and Benefits	\$ 32,570	\$ 0	\$ 32,570
Withholdings Payable	25,278	0	25,278
Other Post-employment Benefits Payable	44	0	44
Accrued Funded Leave, WCF	320	0	320
Accrued Unfunded Annual Leave	0	93,151	93,151
Total - All Other Funds - Current	\$ 58,212	\$ 93,151	\$ 151,363

Note 34. Restatement of Imputed Costs and Financing for Prior Years

In fiscal years 1998, 1999, and 2000, the imputed costs and financing recognized on EPA's financial statements differed from the calculations stipulated in OPM's Financial Management Letters issued annually. Because these errors resulted in offsetting differences in costs and financing sources, they had no effect on Net Position. However, Intragovernmental Costs on the Statement of Net Cost and Imputed Financing on the Statements of Changes in Net Position and Financing were misstated for those fiscal years. The table below shows the differences in thousands for each fiscal year.

	Imputed Costs and and Financing for FY 1998	Imputed Costs and Financing for FY 1999	Imputed Costs and Financing for FY 2000
Superfund:			
Corrected Amounts	\$ 12,422	\$ 12,851	\$ 12,534
Amounts on Statements	30,155	31,437	32,063
Difference	<u>\$ (17,733)</u>	<u>\$ (18,586)</u>	<u>\$ (19,529)</u>
All Other:			
Corrected Amounts	\$ 74,970	\$ 71,839	\$ 70,384
Amounts on Statements	161,853	165,232	168,659
Difference	<u>\$ (86,883)</u>	<u>\$ (93,393)</u>	<u>\$ (98,275)</u>

In accordance with the Statement of Federal Financial Accounting Standard No. 21 (Reporting Corrections of Errors and Changes in Accounting Principles), the amounts for imputed costs and financing are restated in the Statements of Net Cost, the Statement of Changes in Net Position, and the Statement of Financing presented for FY 2000. Since this error has no effect on Net Position, the beginning Net Position does not need to be restated for either FY 2000 or FY 2001. The effect on the applicable lines of FY 2000's statements, in thousands, is presented below:

	Superfund FY 2000 Statements	Superfund FY 2000 Restated	Difference	All Other FY 2000 Statements	All Other FY 2000 Restated	Difference	Consolidated FY 2000 Total Difference
Statement of Net Cost:							
Costs: Intragovernmental	\$ 373,311	\$ 353,782	\$ 19,529	\$ 787,415	\$ 689,140	\$ 98,275	\$ 117,804
Total Costs	\$ 1,664,045	\$ 1,644,516	\$ 19,529	\$ 6,223,482	\$ 6,125,207	\$ 98,275	\$ 117,804
Net Cost of Operations	\$ 1,356,845	\$ 1,337,316	\$ 19,529	\$ 6,131,604	\$ 6,033,329	\$ 98,275	\$ 117,804
Statement of Changes in Net Position:							
Net Cost of Operations	\$ 1,356,845	\$ 1,337,316	\$ 19,529	\$ 6,131,604	\$ 6,033,329	\$ 98,275	\$ 117,804
Imputed Financing	\$ 32,063	\$ 12,534	\$ 19,529	\$ 168,659	\$ 70,384	\$ 98,275	\$ 117,804
Statement of Financing:							
Imputed Financing for Cost Subsidies	\$ 32,063	\$ 12,534	\$ 19,529	\$ 168,659	\$ 70,384	\$ 98,275	\$ 117,804
Net Cost of Operations	\$ 1,356,845	\$ 1,337,316	\$ 19,529	\$ 6,131,604	\$ 6,033,329	\$ 98,275	\$ 117,804

The amounts reduced (in thousands) on the restated Statement of Net Costs by Goal for FY 2000 are:

	Intragovernmental Costs	Management Cost Allocations	Net Cost of Operations
Clean Air	\$ 11,793	\$ 1,633	\$ 13,426
Clean and Safe Water	18,672	2,245	20,917
Safe Food	4,914	665	5,579
Prevent Pollution	7,862	1,061	8,923
Better Waste Management	27,209	4,127	31,336
Global Risks	3,931	481	4,412
Right to Know	5,109	695	5,804
Sound Science	6,879	937	7,816
Credible Deterrent	17,292	2,299	19,591
Effective Management	14,143	(14,143)	0
Total Reduction	\$ 117,804	\$ 0	\$ 117,804

Note 35. Change in Accounting for Trust Funds in FY 2000

During FY 2000, in compliance with Statement of Federal Financial Accounting Standard No. 7 (Accounting for Revenue and Other Financing Sources), the U. S. Standard General Ledger Board issued definitive guidance for trust fund accounting and added new Standard General Ledger accounts to further distinguish trust fund transactions from other funds. As of FY 2000, the EPA implemented these changes for all trust funds. These changes eliminate the use of Unexpended Appropriations and Appropriations Used for trust funds, and indicate the inclusion of only the Cumulative Results of Operations account in Net Position for trust funds.

The changes affected transactions in this manner: In lieu of increases to Unexpended Appropriations, amounts appropriated or transferred to the trust funds are recorded in new accounts as Trust Fund Financing Sources-Transfers In. Amounts transferred out no longer decrease Unexpended Appropriations, but are recorded in new accounts as Trust Fund Financing Sources -Transfers Out. These new accounts are reported on the Statement of Changes in Net Position as Other Financing Sources, and are closed out at year end to Cumulative Results of Operations. Expenditures from trust funds are still reported as expenses or purchases of capital assets and reflected in budgetary expenditures, but are no longer reported as increases to Appropriations Used and decreases to Unexpended Appropriations.

The cumulative effect of these changes on the accounts was to move all balances as of October 1, 1999 in Unexpended Appropriations for trust funds into Cumulative Results of Operations. This cumulative effect is reported on a separate line on the Statement of Changes in Net Position for fiscal year 2000. The decreases to Unexpended Appropriations for trust funds are detailed below:

	Superfund	All Other
Hazardous Substance Superfund No-Year Trust Fund	\$ 2,607,783	\$ 0
Superfund Annual Funds	49,048	0
Leaking Underground Storage Tank Trust Fund	0	81,830
Oil Spill Response Trust Fund	0	9,690
Miscellaneous Contributed Funds Trust Fund	0	76
Totals	\$ 2,656,831	\$ 91,596

Note 36. Change in Accounting for Cashout Interest, Superfund for FY 2000

Per an agreement dated October 3, 1996 between the Office of Management and Budget (OMB) and the EPA, the EPA is allowed additional budget authority for interest earnings on Cashout (Special Account) collections for Superfund. Prior to FY 2000, the authority for interest earnings had previously been classified as Cashout Advances and Deferrals, Superfund, on the Consolidating Balance Sheet and as Spending Authority from Offsetting Collections on the Combined Statement of Budgetary Resources. In FY 2000, the beginning balance for interest earnings on Special Accounts was reclassified from Cashout Advances and Deferrals, Superfund to Net Position on the Consolidating Balance Sheet for Superfund. The change is consistent with guidance from OMB to treat the interest as permanently appropriated and is consistent with definitive guidance for trust fund accounting issued by the U. S. Standard General Ledger Board. This change is also in compliance with Statement of Federal Financial Accounting Standard No. 7 (Accounting for Revenue and Other Financing Sources).

For FY 2000 and 2001, interest earnings that became available during the fiscal years are recorded in Trust Fund Financing Sources - Transfers In for EPA, and are then eliminated against Treasury's Transfers-Out in the consolidation of the Treasury and EPA funds. Current year's earnings are included as Budget Authority on the Combined Statement of Budgetary Resources for Superfund.

Note 37. Change in Accounting for Expenditure Transfers

In fiscal year 2000, Treasury implemented changes in accounting for expenditure transfers from trust funds to eligible fund symbols. These changes allowed the transfers to be recorded as financing sources rather than unexpended or expended appropriations. In addition, new receivable and payable accounts provided the mechanism to record invested financing sources available to cover expenditures until the actual transfers could be completed at a later date.

In accordance with this change, in FY 2001 EPA established new intra-agency accounts receivable and payable accounts for transfers between Superfund and the IG and Science & Technology funds. For comparative purposes, the FY 2000 Balance Sheet and Statement of Changes in Net Position are restated to show \$46.5 million of activity that reflects the cumulative effect of these new accounts. Specifically, the All Others intragovernmental receivables and the Superfund intragovernmental accounts payable were both increased by \$46.5 million for FY 2000, with offsetting amounts reported in the respective cumulative results of operations on the Balance Sheet. On the Statement of Changes in Net Position, an accounting change for FY 2000 was reported which restated ending net position for Superfund and All Others for FY 2000. Of this change, \$45.2 million represents the beginning balance changes for FY 2000 and \$1.3 million was added to All Others transfers-in and Superfund transfers-out to reflect the changes in activity relating solely to FY 2000.

ENVIRONMENTAL PROTECTION AGENCY
REQUIRED SUPPLEMENTAL INFORMATION
AS OF SEPTEMBER 30, 2001
(Dollars in Thousands)
(Unaudited)

Deferred Maintenance

The EPA classifies tangible property, plant, and equipment as follows: 1) EPA-Held Equipment, 2) Contractor-Held Equipment, 3) Land and Buildings, and, 4) Capital Leases. The condition assessment survey method of measuring deferred maintenance is utilized. The Agency adopts requirements or standards for acceptable operating condition in conformance with industry practices. No deferred maintenance was reported for any of the four categories.

Intragovernmental Assets

Intragovernmental amounts represent transactions between all federal departments and agencies and are reported by trading partner (entities that EPA did business with during FY 2001).

EPA confirmed its investment balances with the Bureau of the Public Debt, Department of the Treasury. In addition, EPA sent out requests to trading partners to reconcile and confirm intragovernmental receivables and transfers. Responses or inquiries were received from the Department of Defense, Department of the Interior, Department of Commerce, Department of the Treasury, Nuclear Regulatory Commission and the National Science Foundation.

Trading Partner Code	Agency	Investments		Accounts Receivable		Other	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
04	Government Printing Office	\$ 0	\$ 0	\$ 0	\$ 0	\$ 56	\$ 1,529
11	Executive Office of the President				11		
12	Department of Agriculture			425	97		
13	Department of Commerce			17	96	2	27
14	Department of Interior			13,539	794		
15	Department of Justice			81			
17	Department of the Navy			111	810		
18	U.S. Postal Service			16			122
19	Department of State				154		2,418
20	Department of the Treasury			75	104		
21	Department of the Army			8,806	127		
45	Equal Employment Opportunity Commission				121		
47	General Services Administration			175	36		
49	National Science Foundation				14		
57	Department of the Air Force			604	110		
58	Federal Emergency Management Agency				957		
61	Consumer Product Safety Commission				1		
64	Tennessee Valley Authority				15		
68	EPA (between Superfund and All Other)				48,128	5,448	291
69	Department of Transportation				8,927		
72	Agency for International Development				1,937		
75	Department of Health and Human Services			245	868		
80	National Aeronautics and Space Administration				39		

Trading Partner Code	Agency	Investments		Accounts Receivable		Other	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
86	Department of Housing and Urban Development				149		
89	Department of Energy			85	469		
96	US Army Corps of Engineers			87	4,460		
97	US Department of Defense			6,912	219		
99	Treasury Managed Trust Funds	3,724,044	1,778,818		1,313		
00	Unassigned	0	0	0	21	15	(1)
Total		<u>\$ 3,724,044</u>	<u>\$ 1,778,818</u>	<u>\$ 31,178</u>	<u>\$ 69,977</u>	<u>\$ 5,521</u>	<u>\$ 4,386</u>

Intragovernmental Liabilities

EPA received a few requests for intragovernmental liabilities reconciliation from trading partners. EPA was able to confirm balances with the National Science Foundation (49), the Department of Commerce (13), Tennessee Valley Authority (64), the Office of Personnel Management (24), the Department of the Treasury (20), and the Department of Labor (16).

Trading Partner Code	Agency	Accounts Payable		Accrued Liabilities		Other Liabilities	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
03	Library of Congress	\$ 0	\$ 0	\$ 6	\$ 157	\$ 0	\$ 0
04	Government Printing Office			45	1,146		(6)
11	Executive Office of the President				26		
12	Department of Agriculture			68	1,199	2,085	48
13	Department of Commerce	1,035		699	2,071		140
14	Department of Interior	901		4,611	2,593		81
15	Department of Justice	617		3,418	50	1,067	
16	Department of Labor	2,258		53	43	1,426	6,341
17	Department of the Navy			218	440	102	24
18	United States Postal Service				7	14	
19	Department of State				628		
20	Department of the Treasury			41	226		
21	Department of the Army					3,258	
24	Office of Personnel Management			45	426	1,964	8,742
31	US Nuclear Regulatory Commission				6		20
33	Smithsonian Institution			6	31		
45	EEOC				20		
47	General Services Administration			3,619	17,258	6,875	(87)
49	National Science Foundation			7	241		
56	Central Intelligence Agency				21		
57	Department of the Air Force					2,760	45
58	Federal Emergency Management Agency	15,317		16			
64	Tennessee Valley Authority			1	198		16
68	EPA (between Superfund and All Others)	44,759	512	3,241			5,355
69	Department of Transportation			6,287	141		
73	Small Business Administration				10		
75	Department of Health and Human Services	16		12,793	6,639		
80	National Aeronautics and Space Administration				212		

Trading Partner Code	Agency	Accounts Payable		Accrued Liabilities		Other Liabilities	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
86	Department of Housing and Urban Development				4		1,849
88	National Archives & Records Administration				1		
89	Department of Energy			392	4,537		47
91	Department of Education				4		
95	Independent Agencies			11	8		
96	US Army Corps of Engineers	881	422	21,381	1,287		331
97	Office of the Secretary of Defense	3	125		174	1,044	56
99	Treasury General Fund					690	4,507
00	Unassigned	22	59	770	737	23	(2)
Total		<u>\$ 65,809</u>	<u>\$ 1,118</u>	<u>\$ 57,728</u>	<u>\$ 40,541</u>	<u>\$ 21,308</u>	<u>\$ 27,507</u>

For All Other Funds' remaining intragovernmental liabilities, \$31,124 thousand in Debt is assigned to the Department of the Treasury (trading partner Code 20), and \$77,778 thousand in Custodial Liability is assigned to the Treasury General Fund (trading partner Code 99).

Intragovernmental Revenues and Costs

EPA's intragovernmental earned revenues are not reported by trading partners because they are below OMB's threshold of \$500 million.

	Superfund	All Others
Intragovernmental Earned Revenue	\$ 37,241	\$ 57,444
Associated Costs to generate Above Revenue (Budget Functional Classification 304)	37,241	57,444

ENVIRONMENTAL PROTECTION AGENCY
REQUIRED SUPPLEMENTAL INFORMATION
SUPPLEMENTAL STATEMENT OF BUDGETARY RESOURCES
AS OF SEPTEMBER 30, 2001
(Dollars in Thousands)

Unaudited							
	STAG	Environ- mental Programs & Management	Science & Technology	FIFRA	LUST Trust Fund	Misc. All Other	Consolidated All Other
Budgetary Resources:							
Budget Authority	\$ 3,649,325	\$ 2,091,490	\$ 697,000	\$ 0	\$ 71,795	\$ 736,268	\$ 7,245,878
Unobligated Balances -							
Beginning of the Period	1,218,633	270,917	180,150	4,596	4,331	95,531	1,774,158
Net Transfers,							
Prior Year Balance	0	1,107	0	0	0	(104)	1,003
Spending Authority from							
Offsetting Collections	29,855	51,154	37,592	15,701	40	169,630	303,972
Adjustments	27,154	(14,349)	844	196	2,290	1,960	18,095
Total Budgetary Resources	<u>\$ 4,924,967</u>	<u>\$ 2,400,319</u>	<u>\$ 915,586</u>	<u>\$ 20,493</u>	<u>\$ 78,456</u>	<u>\$1,003,285</u>	<u>\$ 9,343,106</u>
Status of Budgetary Resources:							
Obligations Incurred	\$ 3,625,653	\$ 2,093,381	\$ 714,645	\$ 18,576	\$ 72,236	\$ 907,311	\$ 7,431,802
Unobligated Balances -							
Available	1,299,314	214,529	175,274	1,917	6,134	94,307	1,791,475
Unobligated Balances-							
Not Available	0	92,409	25,667	0	86	1,667	119,829
Total Status of							
Budgetary Resources	<u>\$ 4,924,967</u>	<u>\$ 2,400,319</u>	<u>\$ 915,586</u>	<u>\$ 20,493</u>	<u>\$ 78,456</u>	<u>\$1,003,285</u>	<u>\$ 9,343,106</u>
Outlays:							
Obligations Incurred	\$ 3,625,653	\$ 2,093,381	\$ 714,645	\$ 18,576	\$ 72,236	\$ 907,311	\$ 7,431,802
Less: Spending Authority from							
from Offsetting Collections							
and Adjustments	64,992	70,515	46,657	15,897	2,330	180,395	380,786
Obligated Balance, Net -							
Beginning of the Period	7,874,156	750,109	500,950	1,544	83,976	78,709	9,289,444
Less: Obligated Balance, Net -							
End of the Period	7,917,132	783,265	492,591	1,547	83,186	47,134	9,324,855
Total Outlays	<u>\$ 3,517,685</u>	<u>\$ 1,989,710</u>	<u>\$ 676,347</u>	<u>\$ 2,676</u>	<u>\$ 70,696</u>	<u>\$ 758,491</u>	<u>\$ 7,015,605</u>

**ENVIRONMENTAL PROTECTION AGENCY
REQUIRED SUPPLEMENTAL INFORMATION
WORKING CAPITAL FUND
SUPPLEMENTAL BALANCE SHEET
AS OF SEPTEMBER 30, 2001
(Dollars in Thousands)**

	<u>Unaudited</u>
ASSETS	
Intragovernmental:	
Fund Balance With Treasury	\$ 51,267
Accounts Receivable, Net	20,332
Other	121
Total Intragovernmental	<u>71,720</u>
Inventory and Related Property, Net	14
General Property, Plant and Equipment, Net	14,353
Other	2
Total Assets	<u><u>\$ 86,089</u></u>
LIABILITIES	
Intragovernmental:	
Accrued Liabilities	\$ 1,987
Advances from Other EPA Funds	37,422
Other	94
Total Intragovernmental	<u>39,503</u>
Accounts Payable	2,746
Accrued Liabilities	13,287
Other	1,845
Total Liabilities	<u><u>\$ 57,381</u></u>
NET POSITION	
Cumulative Results of Operations	<u>28,708</u>
Total Net Position	<u>28,708</u>
Total Liabilities and Net Position	<u><u>\$ 86,089</u></u>

**ENVIRONMENTAL PROTECTION AGENCY
REQUIRED SUPPLEMENTAL INFORMATION
WORKING CAPITAL FUND
SUPPLEMENTAL STATEMENT OF NET COST
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(Dollars in Thousands)**

	<u>Unaudited</u>
COSTS:	
Intragovernmental	\$ 15,409
With the Public	104,190
	<hr/>
Total Costs	119,599
Less:	
Earned Revenues	(124,819)
	<hr/>
Net Cost of Operations	\$ (5,220)
	<hr/> <hr/>

**ENVIRONMENTAL PROTECTION AGENCY
REQUIRED SUPPLEMENTAL INFORMATION
WORKING CAPITAL FUND
SUPPLEMENTAL STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(Dollars in Thousands)**

	<u>Unaudited</u>
Net Cost of Operations	\$ 5,220
Financing Sources (Other Than Exchange Revenues):	
Imputed Financing	1,704
Transfers-In	0
Transfers-Out	0
	<hr/>
Net Results of Operations	\$ 6,924
Prior-Period Adjustments	0
	<hr/>
Net Change in Cumulative Results of Operations	\$ 6,924
Net Position - Beginning of the Period	21,784
	<hr/>
Net Position - End of the Period	\$ 28,708
	<hr/> <hr/>

REQUIRED SUPPLEMENTAL INFORMATION
WORKING CAPITAL FUND
SUPPLEMENTAL STATEMENT OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(Dollars in Thousands)

Budgetary Resources	Unaudited
Unobligated Balances, Beginning of the Period	\$ 21,820
Spending Authority from Offsetting Collections	125,706
Adjustments	2,990
	<hr/>
Total Budgetary Resources	\$ 150,516
	<hr/> <hr/>
Status of Budgetary Resources	
Obligations Incurred	\$ 127,482
Unobligated Balances Available	23,034
	<hr/>
Total, Status of Budgetary Resources	\$ 150,516
	<hr/> <hr/>
Outlays	
Obligations Incurred	\$ 127,482
Less: Spending Authority from	
Offsetting Collections and Adjustments	(128,696)
	<hr/>
Subtotal	(1,214)
	<hr/>
Obligated Balance, Net - Beginning of the Period	30,688
Less: Obligated Balance, Net - End of the Period	(28,232)
	<hr/>
Total Outlays	\$ 1,242
	<hr/> <hr/>

**ENVIRONMENTAL PROTECTION AGENCY
REQUIRED SUPPLEMENTAL INFORMATION
WORKING CAPITAL FUND
SUPPLEMENTAL STATEMENT OF FINANCING
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(Dollars in Thousands)**

Obligations and Nonbudgetary Resources	<u>Unaudited</u>
Obligations Incurred	\$ 127,482
Less: Spending Authority for Offsetting Collections and Adjustments	
Earned Reimbursements	
Collected	(125,394)
Receivable from Federal Sources	498
Change in Unfilled Orders - (Decreases)/Increases	(810)
Recoveries from Prior Year Obligations	(2,990)
Financing Imputed for Cost Subsidies	<u>1,704</u>
Total Obligations as Adjusted and Nonbudgetary Resources	<u><u>\$ 490</u></u>
 Resources that Do Not Fund Net Cost of Operations	
Change in Amount of Goods, Services and Benefits Ordered but	
Yet Received or Provided - (Increases)/Decreases	(2,256)
Change in Unfilled Customers Orders, etc. - Increases/(Decreases)	810
Costs Capitalized on the Balance Sheet	
General Plant, Property and Equipment	(9,227)
Purchases of Inventory	<u>32</u>
Total Resources that Do Not Fund Net Costs of Operations	<u><u>\$ (10,641)</u></u>
 Components of Costs of Operations that Do Not Require or Generate Resources	
Depreciation and Amortization	4,396
Loss on Disposition of Assets	<u>124</u>
Total Costs That Do Not Require Resources	<u>4,520</u>
Financing Sources Yet to be Provided	<u>411</u>
Net Costs of Operations	<u><u>\$ (5,220)</u></u>

ENVIRONMENTAL PROTECTION AGENCY
REQUIRED SUPPLEMENTAL STEWARDSHIP INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(Dollars in Thousands)

INVESTMENT IN THE NATION'S RESEARCH AND DEVELOPMENT

Public and private sector institutions have long been significant contributors to our Nation's environment and human health research agenda. EPA's Office of Research and Development, however, is unique among scientific institutions in this country in combining research, analysis, and the integration of scientific information across the full spectrum of health and ecological issues and across both risk assessment and risk management. Science enables us to identify the most important sources of risk to human health and the environment, and by so doing, informs our priority-setting, ensures credibility for our policies, and guides our deployment of resources. It gives us the understanding and technologies we need to detect, abate, and avoid environmental problems. Science provides the crucial underpinning for EPA decisions and challenges us to apply the best available science and technical analysis to our environmental problems and to practice more integrated, more efficient, and more effective approaches to reducing environmental risks.

Among the Agency's highest priorities are research programs that address the effects of the environment on children's health, the potential risks of unregulated contaminants in drinking water, the health effects of air pollutants such as particulate matter, and the protection of the Nation's ecosystems. For FY 2001, the full cost of the Agency's Research and Development activities totaled almost \$646 million. Below is a breakout of the expenses (dollars in thousands):

	FY 1998	FY 1999	FY 2000	FY 2001
Programmatic Expenses	507,828	543,777	541,117	555,794
Allocated Expenses	53,322	58,728	59,523	90,039

INVESTMENT IN THE NATION'S INFRASTRUCTURE

The Agency makes significant investments in the Nations's drinking water and clean water infrastructure. The investments are the result of three programs: The Construction Grant Program which is being phased out, and two State Revolving Fund (SRF) programs.

Construction Grants Program: During the 1970s and 1980s, the Construction Grants Program was a source of Federal funds, providing more than \$60 billion of direct grants for the construction of public wastewater treatment projects. These projects, which constituted a significant contribution to the Nation's water infrastructure, included sewage treatment plants, pumping stations, and collection and intercept sewers, rehabilitation of sewer systems, and the control of combined sewer overflows. The construction grants led to the improvement of water quality in thousands of municipalities nationwide.

Congress set 1990 as the last year that funds would be appropriated for Construction Grants. Projects funded in 1990 and prior will continue until completion. Beyond 1990, EPA shifted the focus of municipal financial assistance from grants to loans that are provided by State Revolving Funds.

State Revolving Funds: The Environmental Protection Agency provides capital, in the form of capitalization grants, to state revolving funds which state governments use to make loans to individuals, businesses, and governmental entities for the construction of wastewater and drinking water treatment infrastructure. When the loans are repaid to the state revolving fund, the collections are used to finance new loans for new construction projects. The capital is reused by the states and is not returned to the Federal Government.

The Agency is also appropriated funds to finance the construction of infrastructure outside the Revolving Funds. These are reported below as Other Infrastructure Grants.

The Agency's expenses related to investments in the Nation's Water Infrastructure are outlined below (dollars in thousands):

	FY 1998	FY 1999	FY 2000	FY 2001
Construction Grants	444,817	414,528	55,766	63,344
Clean Water SRF	1,109,017	925,744	1,564,894	1,548,270
Safe Drinking Water SRF	94,936	387,429	588,116	728,921
Other Infrastructure Grants	138,363	245,606	212,124	282,914
Allocated Expenses	187,649	213,117	266,299	424,999

STEWARDSHIP LAND

The Agency acquires title to certain land and land rights under the authorities provided in Section 104 (J) CERCLA related to remedial clean-up sites. The land rights are in the form of easements to allow access to clean-up sites or to restrict usage of remediated sites. In some instances, the Agency takes title to the land during remediation and returns it to private ownership upon the completion of clean-up. A site with "land acquired" may have more than one acquisition property. Sites are not counted as a withdrawal until all acquired properties have been transferred.

As of September 30, 2001, the Agency possesses the following land and land rights:

Superfund Sites with Easements

Beginning Balance	25
Additions	4
Withdrawals	0
Ending Balance	29

Superfund Sites with Land Acquired

Beginning Balance	23
Additions	2
Withdrawals	0
Ending Balance	25

HUMAN CAPITAL

Agencies are required to report expenses incurred to train the public with the intent of increasing or maintaining the Nation's economic productive capacity. Training, public awareness, and research fellowships are components of many of the Agency's programs, and are effective in achieving the Agency's mission of protecting public health and the environment, but the focus is on enhancing the Nation's environmental, not economic, capacity.

The Agency's expenses related to investments in the Human Capital are outlined below (dollars in thousands):

	FY 1998	FY 1999	FY 2000	FY 2001
Training and Awareness Grants	39,131	46,630	49,265	48,697
Fellowships	11,084	10,239	9,570	11,451
Allocated Expenses	5,273	6,142	6,472	9,744

SUMMARY OF OIG'S AUDIT REPORT
Full Electronic version of complete audit report
at <http://www.epa.gov/oigearth>

INSPECTOR GENERAL'S REPORT ON EPA'S FISCAL 2001 AND 2000 FINANCIAL STATEMENTS

The Administrator
U.S. Environmental Protection Agency

We have audited the consolidating balance sheets of the U.S. Environmental Protection Agency (EPA, or the Agency) and its subsidiary funds, the Superfund Trust Fund (Superfund) and All Other Appropriated Funds (All Other), as of September 30, 2001 and 2000, and the related consolidating statements of net cost and changes in net position, consolidated statements of net cost by goal, combined statements of financing, and consolidated statements of custodial activity for the years then ended, and the related combined statement of budgetary resources for the year ended September 30, 2001. These financial statements are the responsibility of EPA's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial statements contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements include expense of grantees, contractors, and other Federal agencies. Our audit work pertaining to these expenses included testing only within EPA. Audits of grants, contracts, and interagency agreements performed at a later date may disclose questioned costs of an amount undeterminable at this time. In addition, the United States Treasury collects and accounts for excise taxes that are deposited into the Superfund and Leaking Underground Storage Tank Trust Funds.¹ The United States Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to EPA as authorized in legislation. Since the United States Treasury, and not EPA, is responsible for these activities, our audit work did not cover these activities.

The Office of Inspector General (OIG) is not independent with respect to amounts pertaining to its operations that are presented in the financial statements. The amounts included for the OIG are not material to EPA's financial statements. The OIG is organizationally independent with respect to all other aspects of the Agency's activities.

In our opinion, the consolidating financial statements present fairly the consolidated and individual assets, liabilities, net position, net cost, net cost by goal, changes in net position, reconciliation of net cost to budgetary obligations, and custodial activity of the U.S. Environmental Protection Agency and its subsidiary funds, the Superfund Trust Fund and All Other Appropriated Funds, as of and for the years ended September 30, 2001 and 2000, and budgetary resources as of and for the year ended September 30, 2001, in accordance with generally accepted accounting principles.

Review of EPA's Required Supplemental Stewardship Information, Required Supplemental Information, and Management Discussion and Analysis

We inquired of EPA's management as to their methods of preparing its Required Supplemental Stewardship Information (RSSI), Required Supplemental Information, and Management Discussion and Analysis, and

¹ The Leaking Underground Storage Tank Trust Fund is included in the All Other Appropriated Funds column of the financial statements.

reviewed this information for consistency with the financial statements. However, our audit was not designed to express an opinion and, accordingly, we do not express an opinion.

We did not identify any material inconsistencies between the information presented in EPA's financial statements and the information presented in EPA's RSSI, Required Supplemental Information, and Management Discussion and Analysis. OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, requires agencies to report, as Required Supplemental Information, their intra-governmental assets and liabilities by Federal trading partner. We did find that, through no fault of EPA, other Federal agencies were unable to reconcile EPA's reported transactions with their records (see Attachment 2 for additional details on this issue).

Evaluation of Internal Controls

As defined by OMB, internal control, as it relates to the financial statements, is a process, affected by the Agency's management and other personnel, designed to provide reasonable assurance that the following objectives are met:

Reliability of financial reporting - Transactions are properly recorded, processed, and summarized to permit the timely and reliable preparation of the financial statements and RSSI in accordance with generally accepted accounting principles; and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

Reliability of performance reporting - Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Compliance with applicable laws and regulations - Transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements or RSSI; and any other laws, regulations, and government-wide policies identified by OMB.

In planning and performing our audit, we considered EPA's internal controls over financial reporting by obtaining an understanding of the Agency's internal controls, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as supplemented by an OMB memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal controls and, accordingly, we do not express an opinion on internal controls.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted

certain matters discussed below involving the internal control and its operation that we consider to be reportable conditions, although none of the reportable conditions is believed to be a material weakness.

In addition, we considered EPA's internal control over the RSSI by obtaining an understanding of the Agency's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on these internal controls and, accordingly, we do not express an opinion on such controls.

Finally, with respect to internal control related to performance measures presented in *EPA's Fiscal Year 2001 Annual Report*, Section 1, Overview and Analysis (which addresses requirements for a Management's Discussion and Analysis), we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not express an opinion on such controls.

Reportable Conditions

Reportable conditions are internal control weakness matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control that could adversely affect the organization's ability to meet the OMB objectives for financial reporting discussed above. In evaluating the Agency's internal control structure, we identified three reportable conditions, as follows:

Implementation of Internal Use Software Standard

EPA did not implement Statement of Federal Financial Accounting Standard (SFFAS) No. 10, *Accounting for Internal Use Software*, until the end of fiscal 2001, even though the standard was applicable for the entire fiscal year. In addition, some of the supporting documentation used to identify capitalized software costs was insufficient to determine whether such costs exceeded the capitalization threshold. Since EPA issued guidance for capitalizing internally developed software at the end of fiscal 2001, we do not have recommendations.

EPA's Interagency Agreement Invoice Approval Process

Some EPA project officers did not fulfill oversight duties related to reviewing and approving Interagency Agreement (IAG) invoices. We noted deficiencies in this area in prior reports, and we continue to find instances where project offices at EPA's Headquarters and the Cincinnati Financial Management Center (CFMC) did not timely approve IAG invoices because they did not receive the supporting cost information from other Federal agencies to substantiate invoice amounts. Additionally, CFMC continued to use the "first-in first-out" accounting basis (charging the first line of accounting) to allocate costs charged on IAGs with multiple goals/subobjectives, which provides limited assurance that costs were charged to the appropriate goals/subobjectives.

Automated Application Processing Controls

We continue to be unable to assess the adequacy of the automated internal control structure as it relates to automated input, processing, and output controls for the Integrated Financial Management System (IFMS). IFMS applications have a direct and material impact on the Agency's financial statements. Therefore, an assessment of each application's automated input, processing, and output controls, as well as compensating manual controls, is necessary to determine the reliance we can place on the financial statements.

Attachment 1 describes each of the above reportable conditions in more detail, our recommendations, and Agency comments on actions that should be taken to correct these conditions.

Comparison of EPA'S FMFIA Report with Our Evaluation of Internal Controls

OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, requires us to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's Federal Managers Financial Integrity Act (FMFIA or Integrity Act) report that relate to the financial statements and identify material weaknesses disclosed by audit that were not reported in the Agency's FMFIA report. EPA reports on Integrity Act decisions in EPA's *Fiscal Year 2001 Annual Report*. For a discussion on Agency reported Integrity Act material weaknesses and corrective action strategy, please refer to EPA's *Fiscal Year 2001 Annual Report*, Section III, FY 2001 Management Accomplishments and Challenges.

For reporting under FMFIA, material weaknesses are defined differently than they are defined for financial statement audit purposes. OMB Circular A-123, *Management Accountability and Control*, defines a material weakness as a deficiency that the Agency head determines to be significant enough to be reported outside the Agency.

For financial statement audit purposes, OMB defines material weaknesses in internal control as reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the financial statements or RSSI being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audit did not disclose any material weakness that was not reported by the Agency as part of the Integrity Act process.

As a part of the fiscal 2001 Integrity Act process, the Agency reported the following material weaknesses that relate to the Agency's financial statements:

Information System Security - The Office of Environmental Information recognizes that past improvements to its information security program have not resulted in a complete, comprehensive information security program. Therefore, this office is expanding its existing material and Agency weaknesses, Information Systems Security Plans, and Cyber Security to address all security-related deficiencies. In fiscal 2001, Office of Environmental Information (OEI) reported that it had developed an approach to correct the information systems security weakness and plans to evaluate the effectiveness of its guidance and security measures through continued testings and audits. Corrective actions are expected to be completed in fiscal 2002.

Construction Grants Close Out - In 1992, EPA designated this area as an Agency weakness, and in 1996 reclassified it as a material weakness due to a concern that lack of Agency-wide attention might result in the loss of resources to properly complete the program. Corrective actions are expected to be completed in fiscal 2002.

Tests of Compliance with Laws and Regulations

EPA management is responsible for complying with laws and regulations applicable to the Agency. As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as supplemented by an OMB Memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*. The OMB guidance requires that we evaluate compliance with Federal financial management system requirements, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to EPA.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion. There are a number of ongoing investigations involving EPA's grantees and contractors that could disclose violations of laws and regulations, but a determination about these cases has not been made.

None of the noncompliances discussed below would result in material misstatements to the audited financial statements.

Federal Financial Management Improvement Act Noncompliance

Under FFMIA, we are required to report whether the Agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. OMB Bulletin No. 01-02, as supplemented by an OMB memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*, substantially changed the guidance for determining whether or not an Agency substantially complied with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. The document is intended to focus Agency and auditor activities on the essential requirements of FFMIA. The document lists the specific requirements of FFMIA, as well as factors to consider in reviewing systems and for determining substantial compliance with FFMIA. It also provides guidance to Agency heads for developing corrective action plans to bring an Agency into compliance with FFMIA. To meet the FFMIA requirement, we performed tests of compliance with FFMIA section 803(a) requirements and used the OMB guidance, revised on January 4, 2001, for determining substantial noncompliance with FFMIA.

The results of our tests disclosed one instance where the Agency's financial management systems did not substantially comply with the applicable Federal accounting standard. We identified a substantial noncompliance with the SFAS No. 4 accounting standard for managerial cost accounting, which is described more fully in Attachment 2.

In addition to the above instance of substantial noncompliance, we identified one other noncompliance, related to reconciliation of intra-governmental transactions. However, this noncompliance does not meet the definition of a substantial noncompliance as described in OMB guidance.

Attachment 2 provides additional details, as well as our recommendations and Agency comments on actions that should be taken on these matters.

Appropriation Law Noncompliance

Since fiscal 1994, we have reported that EPA was not complying with appropriation law when making disbursements for grants funded with more than one appropriation. Specifically, disbursements for these grants were made using the oldest available funding (appropriation) first, which may or may not have been the appropriation that benefitted from the work performed. Therefore, EPA was not in compliance with Title 31, U.S. Code, Section 1301, which requires EPA to match disbursements to the benefitting appropriation. A January 13, 2000, Office of General Counsel decision concluded that making disbursements for multiple appropriation grants using the oldest available funding violates Title 31, U.S. Code, Section 1301 and is an inappropriate method of charging, except in limited situations. In fiscal 2001, EPA adopted new procedures for allocating costs on such grants for new awards, although existing grants are still being disbursed using the oldest available funding first. Since EPA has issued guidance for new awards, and since the remaining obligated balances will dissipate and the problem will be corrected, we are not making any recommendations. See Attachment 3 for a description of the Agency's corrective action plans and milestones.

Prior Audit Coverage

During previous financial or financial-related audits, weaknesses that impacted our audit objectives were reported in the following areas:

- The Agency's process for preparing financial statements, including the Statements of Budgetary Resources, Financing, and Net Cost.
- Complying with FFMIA requirements.
- Reviewing unliquidated obligations.
- Reporting intra-governmental assets and liabilities by Federal trading partner.
- Complying with SFFAS No. 4, including accounting for the cost to achieve goals and identifying and allocating indirect costs.
- Accounting for capitalized property.
- Recording accrued liabilities for grants.
- IAG invoice approval process. Documenting EPA's IFMS.
- Complying with Federal financial management system security requirements.
- Accounting for payments for grants funded from multiple appropriations.
- Reviewing Agency user fees.
- Documentation and approval of journal vouchers.
- Timely repayment of Asbestos Loan Debt to Treasury.
- Automated application processing controls for the IFMS could not be assessed.
- Reconciliation of intra-governmental transactions.
- Financial system security plans continue to be noncompliant.

Attachment 3, Status of Prior Audit Report Recommendations, summarizes the current status of corrective actions taken on prior audit report recommendations in each of these areas.

The Chief Financial Officer, as the Agency's Audit Follow-up Official, oversees EPA's follow-up on audit findings and recommendations, including resolution and implementation of corrective actions. For these prior audits, final action occurs when the Agency completes implementation of the corrective actions to remedy weaknesses identified in the audit.

We acknowledge that many actions and initiatives have been taken to resolve prior financial statement audit issues. We also recognize that the issues we have reported are complex, and require extensive, long-term corrective actions and coordination by the Chief Financial Officer with various Assistant Administrators, Regional Administrators, and Office Directors before they can be completely resolved. A number of issues have been unresolved for many years.

In response to our inquiries on actions taken by the Office of the Chief Financial Officer (OCFO) to resolve long outstanding audit recommendations, a representative informed us of a number of efforts that were conducted in fiscal 2000. The OCFO continued efforts to stress the importance of timely and effective audit management

practices. The OIG and OCFO held a joint meeting with the Audit Follow-up Coordinators to: (1) reinforce their roles and responsibilities; (2) review expectations for audit follow-up, as laid out in EPA Order 2750, *Audit Management Process*; and (3) reemphasize the importance to Audit Follow-up Coordinators in keeping their managers and the OIG informed of progress.

The OIG will continue to work with the OCFO in helping to resolve all audit issues resulting from our financial statement audits.

Agency Comments and OIG Evaluation

In memorandums dated February 12 and 25, 2002, the Comptroller responded to our draft report. The OCFO generally concurred with our findings and is in process of implementing corrective actions. However, the OCFO took exception to two issues, Managerial Cost Accounting and Internal Use Software.

The OCFO believes they are complying with the Managerial Cost Accounting Standard and is currently preparing a response to the points raised in the Inspector General's December 12, 2001 memorandum to the Administrator regarding the impasse over FFMIA compliance.

The OCFO acknowledged that SSFAS No. 10 was not implemented until the end of the fiscal year. However, the OCFO believes by doing so, EPA was able to use the most recent guidance and develop more accurate and complete costs. We do not agree with the OCFO, we found that some of the data and costs for systems that were not capitalized were either incomplete or ambiguous.

The rationale for our conclusions and a summary of the Agency comments is included in the appropriate sections of this report and the Agency's complete response is included as Appendix II to this report.

This report is intended solely for the information and use of the management of EPA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.



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